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**BEFORE THE ARIZONA CORPORATION COMMISSION**

IN THE MATTER OF THE APPLICATION OF  
LITCHFIELD PARK SERVICE COMPANY,  
AN ARIZONA CORPORATION FOR A  
DETERMINATION OF THE FAIR VALUE OF  
ITS UTILITY PLANTS AND PROPERTY AND  
FOR INCREASES IN ITS WASTEWATER  
RATES AND CHARGES BASED THEREON  
FOR UTILITY SERVICE.

DOCKET NO: SW-01428A-13-0042

IN THE MATTER OF THE APPLICATION OF  
LITCHFIELD PARK SERVICE COMPANY,  
AN ARIZONA CORPORATION FOR A  
DETERMINATION OF THE FAIR VALUE OF  
ITS UTILITY PLANTS AND PROPERTY AND  
FOR INCREASES IN ITS WATER RATES AND  
CHARGES BASED THEREON FOR UTILITY  
SERVICE.

DOCKET NO: W-01427A-13-0043

**NOTICE OF FILING REJOINDER  
TESTIMONY**

Liberty Utilities (Litchfield Park Water & Sewer) Corp. ("LPSCO") hereby  
submits this Notice of Filing Rejoinder Testimony in the above-referenced matter.  
Specifically filed herewith are LPSCO's Rejoinder Testimonies, which include the  
following testimonies, along with supporting schedules and/or attachments:

1. Rejoinder Testimony of Christopher D. Krygier;
2. Rejoinder Testimony of Thomas J. Bourassa (Rate Base);
3. Rejoinder Testimony of Greg Sorensen;
4. Rejoinder Testimony of Thomas J. Bourassa (Cost of Capital); and

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6

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BASED THEREON.  
19

DOCKET NO: SW-01428A-13-0042

20  
21 **REJOINDER TESTIMONY OF**  
22 **CHRISTOPHER D. KRYGIER**

23 **December 4, 2013**  
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1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Christopher D. Krygier, and my business address is 12725 W. Indian  
4 School Road, Suite D101, Avondale, AZ 85392.

5 **Q. DID YOU PREVIOUSLY PROVIDE TESTIMONY ON BEHALF OF THE**  
6 **COMPANY IN THIS CASE?**

7 A. Yes, my direct testimony was filed on February 28, 2013 with the Company's  
8 application, and my rebuttal testimony was filed on October 23, 2013.

9 **Q. WHAT IS THE PURPOSE OF YOUR REJOINDER TESTIMONY IN THIS**  
10 **PROCEEDING?**

11 A. I am responding to the surrebuttal testimonies filed by Staff and RUCO on  
12 November 12, 2013. In particular, my rejoinder testimony addresses the following  
13 issues:

- 14 • Staff Wastewater Rate Base Adjustment No. 1 – Post Test Year Plant
  - 15 • RUCO Operating Income Adjustments:
    - 16 ○ No. 5 – Declining Usage Adjustment
    - 17 ○ No. 8 – Employee Pension Benefits
    - 18 ○ No. 13 – APUC Cost Allocations
  - 19 • RUCO's Opposition to Policy Proposals
    - 20 ○ System Improvement Benefit Mechanism ("SIB")
    - 21 ○ Purchased Power Adjustment Mechanism ("PPAM")
  - 22 • RUCO's Accounting Controls Discussion
  - 23 • Staff's Income Tax Proposal
- 24  
25  
26

1     **II.     REJOINDER TO STAFF**

2             **A.     Wastewater Post Test Year Plant (Equalization Basin)**

3     **Q.     MS. HAINS TESTIFIED IN SURREBUTTAL THAT SHE WAS GOING TO**  
4     **INSPECT THE PLANT. DID THAT OCCUR?**

5     A.     Yes. Ms. Hains inspected the plant November 7, 2013 and confirmed to Company  
6             officials, including myself, that the project was in-service. Subsequent to that  
7             inspection, I provided the final invoice packet to Staff and RUCO on November  
8             18, 2013. The final project cost, which will be included in Mr. Bourassa's  
9             rejoinder plant schedules, was \$1,102,722 with associated retirements of \$38,424.

10    **Q.     WAS THE FINAL COST WITHIN THE RANGE OF THE ESTIMATED**  
11    **COST?**

12    A.     Yes, the final cost was about 10 percent higher than the estimate.

13    **Q.     AND THIS PLANT IS NECESSARY TO SERVE YOUR EXISTING**  
14    **CUSTOMERS?**

15    A.     Yes. The refurbished equalization basin is necessary to ensure we can continue to  
16             safely treat wastewater flows coming into our Palm Valley treatment facility.  
17             This capital project was necessary to keep what we already have operating  
18             adequately for our existing customers.

19    **Q.     WHAT IS RUCO'S STANCE ON THE ISSUE?**

20    A.     RUCO has included the project in rate base in both its direct and surrebuttal filings.  
21             I assume that RUCO will be updating its final schedules to reflect the final  
22             numbers.

23

24

25

26

1     **III.     REJOINDER TO RUCO**

2             **A.     RUCO Operating Expense Adjustments**

3                     1.     Adjustment No. 5 – Declining Water Usage

4     **Q.     HAS RUCO’S POSITION CHANGED ON THIS ISSUE SINCE RUCO’S**  
5     **DIRECT TESTIMONY?**

6     A.     No.

7     **Q.     WHAT IS STAFF’S POSITION ON THE ISSUE?**

8     A.     The Company and Staff are in agreement that a declining usage adjustment should  
9     be made.

10    **Q.     DOES RUCO’S SURREBUTTAL TESTIMONY MAKE ANY NEW**  
11    **ARGUMENTS?**

12    A.     No, RUCO simply repeats the arguments made in direct testimony.

13    **Q.     DOES RUCO RESPOND TO ANY OF THE COMPANY’S ARGUMENTS?**

14    A.     Surprisingly no. This is one example of several instances where RUCO’s  
15    surrebuttal testimony chose to just ignore the Company’s detailed response to  
16    RUCO’s direct testimony. In that response, I explained that (1) while the  
17    adjustment might not be “known and measurable” in the strictest sense, a customer  
18    safeguard is in place to prevent any over recovery by the Company, (2) research  
19    indicates that water companies have difficulty collecting all of the revenue  
20    authorized by the Commission and a declining usage adjustment helps partially  
21    mitigate that concern, and (3) as Mr. Olea has testified before, it is the current rate  
22    designs being approved by the Commission leading to declining usage, therefore,  
23    the revenue reduction should be recognized in the ratemaking process.<sup>1</sup>

24  
25             

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26    <sup>1</sup> See Rebuttal Testimony of Christopher D. Krygier (“Krygier Rb.”) at 6 citing Responsive Testimony of Steven M. Olea at 2:9-22.

1 Q. HOW DO YOU SUGGEST THAT THE COMMISSION TREAT RUCO'S  
2 FAILURE TO RESPOND?

3 A. I think they should conclude that RUCO has failed to meet its burden of proof to  
4 show that its adjustment, which is opposed by the Company and not supported by  
5 Staff, is reasonable and the Commission should approve the declining usage  
6 adjustment as recommended by the Company and Staff.

7 2. Adjustment No. 8 – Employee Pension Benefits

8 Q. HAS RUCO'S POSITION CHANGED ON THIS ISSUE SINCE RUCO'S  
9 DIRECT TESTIMONY?

10 A. Yes. RUCO has agreed to reverse its position and accept the adjustment as long as  
11 the Company files documentation reflecting the payment was made.<sup>2</sup>

12 Q. WHAT POSITION DOES STAFF TAKE ON THE ISSUE?

13 A. The Company and Staff are in agreement to include this adjustment.

14 Q. HAS THE COMPANY MADE THE PAYMENT?

15 A. Yes, the payment was made this week. I will be providing proof of payment to  
16 RUCO and Staff before the hearing. I believe that this resolves any dispute or  
17 other concern with this expense.

18 3. Adjustment No. 13 – APUC Cost Allocations

19 Q. HAS RUCO'S POSITION ON THE CORPORATE COST ALLOCATION  
20 CHANGED SINCE RUCO'S DIRECT TESTIMONY?

21 A. Yes, but RUCO is now disallowing fifty percent of costs it agrees are a reasonable  
22 cost of service.

23  
24  
25  
26 <sup>2</sup> Direct Testimony of Robert B. Mease ("Mease Dt.") at 19:16-21.

1 **Q. HOW EXACTLY HAS RUCO'S POSITION CHANGED?**

2 A. RUCO now agrees that the allocated expenses for professional services, unit holder  
3 communications, trustee/director fees, employee stock purchase plans, and escrow  
4 agent fees are part of LPSCO's cost of service.<sup>3</sup> In its direct filing RUCO  
5 recommended that all of these costs be disallowed and removed from the Corporate  
6 Cost Allocation.<sup>4</sup> I assume the substantial evidence we provided RUCO, both in  
7 discovery and with my rebuttal, convinced RUCO that these expenses are  
8 necessary and reasonable.

9 **Q. BUT YOU SAID THAT RUCO'S RECOMMENDED EXPENSE LEVEL IS**  
10 **UNREASONABLE.**

11 A. I did and it is. After changing its position that all of these costs should be  
12 disallowed, RUCO now recommends that half of this cost of this cost of service  
13 should be paid by the shareholder.<sup>5</sup>

14 **Q. HOW DOES RUCO JUSTIFY MAKING SHAREHOLDERS PAY HALF OF**  
15 **AN OPERATING EXPENSE?**

16 A. By claiming that shareholders also benefit from these expenses.<sup>6</sup> But that is not the  
17 test of whether an expense should be recovered. The test is whether the expense is  
18 a necessary, prudent and reasonable cost of service. By allowing half the actual  
19 amount, RUCO is agreeing that the expenses are a necessary cost of service.  
20 Moreover, RUCO is not asserting that the expense level is inflated or otherwise  
21 imprudent or unreasonable. Instead, to deny the Company recovery of a necessary,  
22 prudent and reasonable cost of service, RUCO identifies the shareholder as a cost

23  
24 <sup>3</sup> Surrebuttal Testimony of Robert B. Mease ("Mease Sb.") at 21:16-19.

25 <sup>4</sup> See RUCO Rebuttal Schedule RBM-27.

26 <sup>5</sup> Mease Sb. at 21:16-21.

<sup>6</sup> *Id.* at 22:13-19.

1 beneficiary. So RUCO's argument is that shareholders have to share operating  
2 expenses. This is fundamentally flawed.

3 Nearly all expenses provide benefits to both customers and shareholders.  
4 As an example, purchased power costs benefit customers because this power helps  
5 transport water from the Company's water sources, thus the customers receive  
6 drinking water. This expense benefits the Company because it is able to sell water  
7 and therefore generate revenue. Paying to send bills out benefits shareholders too,  
8 but we don't allocate part of the postage cost to the shareholders. These are costs  
9 of service and RUCO has failed to demonstrate that these otherwise necessary,  
10 reasonable and prudent expenses should be reduced by 50 percent.

11 **Q. FINALLY, DID RUCO CALCULATE THIS DISALLOWANCE**  
12 **CORRECTLY?**

13 A. As I mentioned in my rebuttal testimony,<sup>7</sup> RUCO made one minor omission that  
14 causes their recommended disallowance to be overstated. Like rebuttal, I have  
15 included an exhibit illustrating what RUCO's proposed disallowance should be  
16 once they update for the annualization, \$55,387 for the water division and \$45,982  
17 for the wastewater division.

18 **B. RUCO Opposition to LPSCO's Policy Proposals**

19 1. System Improvement Benefit Mechanism ("SIB")

20 **Q. DOES RUCO STILL OBJECT TO APPROVAL OF A SIB FOR LPSCO'S**  
21 **WATER AND WASTEWATER DIVISIONS?**

22 A. Yes, RUCO still objects to approval of any form of DSIC like mechanism,  
23 including our requested SIBs for water and wastewater, which SIBs are materially  
24 the same as the ones the Commission approved this year for Arizona Water  
25

26 <sup>7</sup> Krygier Rb. at 9:18-23.

1 Company.<sup>8</sup> In that case, RUCO has sought rehearing, brought in new expert  
2 witnesses and counsel, and made it clear it intends to appeal. So we are not  
3 surprised RUCO opposes the requested SIB in this case. It appears that RUCO will  
4 oppose every DSIC like mechanism the Commission approves for water and sewer  
5 utilities until Arizona's courts weigh in on the issue.<sup>9</sup>

6 **Q. DOES STAFF SUPPORT THE REQUESTED SIB FOR WATER AND THE**  
7 **SIB FOR WASTEWATER?**

8 A. Yes. Staff had concerns with our initial filing, but that predates the decision for  
9 Arizona Water, which approved SIB was based on a settlement that we were a  
10 party to and used as a template. Once we modified our request, and the supporting  
11 documentation, Staff joined us in supporting the requested SIBs.<sup>10</sup>

12 **Q. DOES RUCO RAISE ANY NEW ARGUMENTS IN ITS SURREBUTTAL**  
13 **TESTIMONY?**

14 A. Only that the Commission has never approved a wastewater SIB.<sup>11</sup>

15 **Q. HOW DOES THE COMPANY RESPOND?**

16 A. That is not a reason for the Commission to reject the request. The adoption of  
17 these DSIC like mechanisms reflects a Commission policy that fosters investment  
18 in plant and promotes rate gradualism, among other benefits. I see no reason, nor  
19 does RUCO offer one, to discriminate against sewer customers relative to water  
20 customers in approving an important ratemaking tool. If the SIB for sewer meets  
21 the same criterion as the SIB for water, then there is no basis for approving one and  
22 not the other.

23  
24 <sup>8</sup> Decision No. 73938 (June 27, 2013).

25 <sup>9</sup> See *id.* at 11-13.

26 <sup>10</sup> See **Exhibit CDK-RJ1**.

<sup>11</sup> Mease Dt. at 30:16.



1 **Q. FAIR ENOUGH, BUT DOESN'T RUCO ALSO ARGUE THAT THE**  
2 **SUPPORTING INFORMATION IS INADEQUATE?**

3 A. Yes, RUCO continues to assert that the information "necessary to perform a  
4 satisfactory review" was missing from the Company's original filing.<sup>12</sup> However,  
5 as I mentioned in my rebuttal testimony (at 22:1-4), the Company provided over  
6 600 pages of supporting data to Staff and RUCO. This information provides detail  
7 on materials, design and construction cost, which should have addressed RUCO's  
8 claim that "financial information" is lacking. I can't say whether RUCO just  
9 ignored everything we have submitted because it is just opposed to DSIC like  
10 mechanisms for water and sewer utilities, or whether it did not understand the info  
11 because it does not have any engineering witnesses. In either case, the  
12 Commission should approve the SIB as requested by the Company and supported  
13 by Staff, and again, reject RUCO's opposition.

14 2. Purchased Power Adjustment Mechanism ("PPAM")

15 **Q. HAS RUCO'S POSITION CHANGED ON THIS ISSUE SINCE RUCO'S**  
16 **DIRECT TESTIMONY?**

17 A. No, RUCO still objects to the requested PPAM.

18 **Q. WHAT POSITION DOES STAFF TAKE ON THE ISSUE?**

19 A. The Company and Staff are in agreement on this issue.

20 **Q. DOES RUCO MAKE ANY NEW ARGUMENTS IN ITS SURREBUTTAL**  
21 **TESTIMONY?**

22 A. No, RUCO just restates its direct testimony to which I have already responded.<sup>13</sup>  
23  
24

25 <sup>12</sup> Mease Sb. at 32:1-5.

26 <sup>13</sup> See Section III(A)(I) *supra*.

1 **Q. WHY IS AUTHORIZING A PPAM IN THE PUBLIC INTEREST?**

2 A. APS is LPSCO's sole power provider, therefore, it has no control over this cost,  
3 which is one of the reasons the Commission routinely approves similar adjustors  
4 for electric and gas utilities. This mechanism will adjust for increases and  
5 decreases in cost resulting from Commission-approved rate orders, and therefore is  
6 fair to customers. It will also be relatively easy to administrate as the Company  
7 will file a detailed Plan of Administration within ninety days of a Commission  
8 decision approving the mechanism.

9 **C. RUCO Criticism of Company Recordkeeping and Filing Review**

10 **Q. DID YOU READ RUCO'S DIRECT AND SURREBUTTAL TESTIMONY**  
11 **EXPRESSING CONCERN OVER SOME ERRORS IN COMPANY'S**  
12 **RECORDKEEPING?**

13 A. Yes.

14 **Q. WHY DIDN'T THE COMPANY RESPOND IN REBUTTAL?**

15 A. Because many of the errors RUCO noted had been addressed and there was no  
16 lingering impact on the issues in dispute in the case.

17 **Q. DO YOU AGREE THAT THE COMPANY'S BOOKS AND RECORDS HAD**  
18 **SOME ERRORS?**

19 A. Yes. This is a Class A Utility and despite our best efforts, there were some  
20 mistakes. In my experience, it is not uncommon in rate cases that all parties make  
21 some level of mistakes, including the Company. The key is to try to find and  
22 correct any errors so they do not impact the revenue requirement. I would also  
23 note that some of the items that were described as errors were actually  
24 reclassifications, which could have been debated, but the Company agreed to with  
25 Staff to eliminate disputes. Additionally, some items were typographical errors  
26 that had no impact on the revenue requirement.

1 Q. HOW DO YOU RESPOND TO RUCO'S RECOMMENDATION GOING-  
2 FORWARD?

3 A. We have discussed RUCO's concerns with Mr. Mease and Mr. Quinn.  
4 They understand that we take these concerns seriously and will be reviewing our  
5 recordkeeping procedures and our future filings in an effort to reduce future  
6 mistakes. Liberty cannot promise perfection, but we will certainly consider  
7 RUCO's concerns and strive to improve.

8 IV. STAFF'S INCOME TAX PROPOSAL

9 Q. HAS STAFF'S POSITION CHANGED FROM THEIR INITIAL  
10 RECOMMENDATION?

11 A. No, Staff still recommends that the Company calculate any potential deferred taxes  
12 and present a plan to the Commission within 60 days of the decision in the instant  
13 case.<sup>14</sup>

14 Q. HAS LPSCO'S POSITION CHANGED FROM REBUTTAL?

15 A. No. The Company still urges the Commission to reject this recommendation by  
16 Staff because it has not explained why Liberty Utilities warrants special  
17 treatment.<sup>15</sup>

18 Q. WHY IS THE COMPANY OPPOSED TO THIS RECOMMENDATION?

19 A. Because the Company seems to be being singled out for single issue ratemaking.  
20 I really can't say why Staff has singled us out. But I can say that the Company  
21 can't find any other rate cases where Staff made this deferred tax recommendation.  
22 In fact, Staff just filed *direct* testimony in the *Las Quintas Serenas Water Co.* rate  
23  
24

25 <sup>14</sup> Direct Testimony of Darron W. Carlson at 34:12-18.

26 <sup>15</sup> Direct Testimony of Christopher D. Krygier at 28:6-17.

1 case, *after it filed its direct in this rate case*, and Staff did not make a similar  
2 recommendation in that rate case.<sup>16</sup>

3 **Q. BUT DOESN'T SOMEONE HAVE TO BE FIRST, MR. KRYGIER?**

4 A. I assume the first utility to seek rates based on a test year with different state  
5 income tax rates than were used in our test year a couple years ago. I don't know  
6 why Staff is trying to engage in prospective, single issue ratemaking for Liberty.

7 **Q. WHAT DO YOU MEAN BY SINGLE ISSUE RATEMAKING?**

8 A. Staff is proposing we find a way to isolate this one single expense that might be  
9 less than the test year in the future. What about all the expenses that have likely  
10 already increased since the test year and will continue increase just due to  
11 inflation? What makes this single expense special and relevant for single issue  
12 ratemaking? Staff certainly has not provided a compelling reason for singling out  
13 the Company for this special, future, single issue ratemaking that may require us to  
14 make refunds because one expense changed.

15 **Q. HOW IS THIS DIFFERENT THAN THE COMPANY'S REQUESTED**  
16 **PPAM?**

17 A. The PPAM tracks known and measurable changes in power costs caused by this  
18 Commission and works to increase or decrease rates accordingly. The PPAM is a  
19 known ratemaking tool used frequently by this Commission for all types of  
20 utilities.

21 **Q. WHAT ABOUT THE NOTION THAT THIS IS A STATE MANDATE?**

22 A. The utility will meet this "mandate" by paying its state income tax bill. But this is  
23 not a mandate that should lead to special, prospective, single issue ratemaking  
24 treatment. No more so than the additional federal income tax expense we will  
25

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26 <sup>16</sup> Direct Testimony filed Oct. 7, 2013 in Docket No. W-01583A-13-0117.

1 incur for the federally mandated Private Protection and Affordable Care Act,  
2 commonly known as "Obamacare." This is a continuing federal mandate that  
3 increases expenses, yet the Company will not be recovering this in rates. It is  
4 inconsistent to use special ratemaking to address one state/federal mandate but not  
5 another that clearly fits the same bill.

6 **Q. WHAT IS RUCO'S POSITION ON THIS ISSUE?**

7 A. RUCO is not recommending a similar requirement

8 **Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?**

9 A. Yes.

# **EXHIBIT CDK-RJ1**

Water

OPERATING INCOME ADJUSTMENT NO. 13  
APUC COST ALLOCATIONS

Line No.	Description	(A) Company Requested Total APUC Cost Pool	(B) Allocation Factor From APUC To Liberty Utilities	(C) APUC Allocation To Liberty Utilities	LPSCO Column		Remainder Reduced		(F) Allocation Factor From Liberty Utilities South To LPSCO Water	(G) Allocation Factor From Liberty Utilities South To LPSCO Wastewater		(H) Liberty Utilities South Allocation To LPSCO Water	(I) Liberty Utilities South Allocation To LPSCO Wastewater		(J) RUCO Recommended Allocations Factors Per Decision 72059	(K) RUCO Recommended Allocations LPSCO Water	(L) RUCO Recommended Allocations LPSCO Sewer
					Water Annualization -32%	Liberty Utilities	Liberty Utilities South	Liberty Utilities		Liberty Utilities South	Liberty Utilities South		Liberty Utilities South				
1	Audit	\$ 1,561,911	51.8%	\$ 808,566	\$ 552,662	\$ 123,009	22.26%	28.74%	26.87%	\$ 35,347	\$ 33,050	100%	\$ 35,347	\$ 33,050		\$ 35,347	\$ 33,050
2	Tax	1,169,300	51.8%	605,321	413,757	92,089	22.26%	28.74%	26.87%	26,462	24,742	100%	26,462	24,742		26,462	24,742
3	Legal	635,190	51.8%	328,824	224,762	50,025	22.26%	28.74%	26.87%	14,375	13,441	100%	14,375	13,441		14,375	13,441
4	Professional Services	680,395	51.8%	352,225	240,756	53,585	22.26%	28.74%	26.87%	15,398	14,529	50%	7,699	7,414		7,699	7,199
5	Unitholder Communications	700,793	51.8%	362,785	247,976	55,191	22.26%	28.74%	26.87%	15,859	14,828	50%	7,930	7,414		7,930	7,414
6	Trustee / Director Fees	376,154	51.8%	195,762	133,810	29,762	22.26%	28.74%	26.87%	8,558	8,002	50%	4,279	4,001		4,279	4,001
7	Computer Supplies /Repairs	51,761	51.8%	26,766	18,316	4,076	22.26%	28.74%	26.87%	1,171	1,095	100%	1,171	1,095		1,171	1,095
8	Office Expenses	98,210	51.8%	50,841	34,752	7,735	22.26%	28.74%	26.87%	2,223	2,078	100%	2,223	2,078		2,223	2,078
9	Employee Stock Purchase Plan	4,270	51.8%	2,210	1,511	336	22.26%	28.74%	26.87%	97	90	45	48	45		48	45
10	Board of Director's Insurance	145,728	51.8%	75,440	51,596	11,777	22.26%	28.74%	26.87%	3,298	3,084	50%	1,649	1,542		1,649	1,542
11	Electric & Transfer Agent Fees	75,000	51.8%	38,826	26,539	5,907	22.26%	28.74%	26.87%	1,897	1,807	50%	949	794		949	794
12	Training	1,376,013	51.8%	712,331	486,902	106,368	22.26%	28.74%	26.87%	1,728	1,615	100%	1,728	1,615		1,728	1,615
13	Stock Option expense	54,095	51.8%	28,004	19,142	4,260	22.26%	28.74%	26.87%	31,140	28,117	0%	-	-		-	-
14	Recruiting	2,315	51.8%	1,186	819	162	22.26%	28.74%	26.87%	1,224	1,145	100%	1,224	1,145		1,224	1,145
15	Meals and Entertainment	84,861	51.8%	43,931	30,028	6,893	22.26%	28.74%	26.87%	52	49	50%	26	24		26	24
16	Rent	78,982	51.8%	40,897	27,948	6,663	22.26%	28.74%	26.87%	1,920	1,796	100%	1,920	1,796		1,920	1,796
17	Communication	47,155	51.8%	24,411	16,686	3,714	22.26%	28.74%	26.87%	1,067	998	100%	1,067	998		1,067	998
18	Dues and Memberships	384,804	51.8%	199,256	136,186	30,313	22.26%	28.74%	26.87%	8,711	8,145	100%	8,711	8,145		8,711	8,145
19	Licenses/Fees & Permits	14,274	51.8%	7,389	5,051	1,124	22.26%	28.74%	26.87%	323	302	100%	323	302		323	302
20	Net Other Admin Costs									10,321	26,092	62%	6,354	16,064		6,354	16,064
21	Variance Due to Company's Monthly Allocation Factoring																
22	Total APUC Allocations Per RUCO	\$ 7,619,653		\$ 3,944,525		\$ 600,088				\$ 182,757	\$ 187,324					\$ 124,104	\$ 126,163
23	Company Water Division's APUC Cost Allocation Requested															179,491	
24	Company Wastewater Division's APUC Cost Allocation Requested																160,629
25	RUCO Recommended Water and Wastewater Division's APUC Cost Allocation Adjustment															\$ (55,397)	\$ (34,469)

Notes:

Variances by Company Per Responses to RUCO DR 1.08 and Staff 5.2  
RUCO Allowance Factor for the Variances Identified by Company

References:

Column (A) - Company response to Staff DR JMM - 10.1(a) confirmed the accruals in that Column were true-up to Actual Expenses for this rate case.

Water  
&  
Wastewater  
\$ 36,413  
62%

\$ (95,397) \$ (34,496)

OPERATING INCOME ADJUSTMENT NO. 13  
APUC COST ALLOCATIONS

Line No.	Description	(A) Company Requested Total APUC Cost	(B) Allocation Factor From APUC	(C) APUC Allocation To Liberty Utilities	LPSCO Column		(D) Allocation Factor From Liberty Utilities	(E) Liberty Utilities Allocation To	(F) Allocation Factor From Liberty Utilities	(G) Allocation Factor From Liberty Utilities	(H) Liberty Utilities Allocation To	(I) Liberty Utilities Allocation To	(J) RUCO Recommended Allocations Factors Per Decision 72059	(K) RUCO Recommended Allocations	(L) RUCO Recommended Allocations
					Wastewater Annualization -35%	Wastewater Allocation -35%		Liberty Utilities Allocation To							
1	Audit	\$ 1,561,911	51.8%	\$ 805,566	\$ 495,773	\$ 495,773	22.26%	\$ 110,343	28.74%	28.87%	\$ 31,707	\$ 29,647	100%	\$ 31,707	\$ 29,647
2	Tax	1,169,300	51.8%	605,321	371,153	371,153	22.26%	82,608	28.74%	28.87%	23,737	22,195	100%	23,737	22,195
3	Legal	635,190	51.8%	328,824	201,619	201,619	22.26%	44,874	28.74%	28.87%	12,895	12,057	100%	12,895	12,057
4	Professional Services	680,385	51.8%	352,225	215,987	215,987	22.26%	48,067	28.74%	28.87%	13,812	12,915	100%	13,812	12,915
5	Unifiber Communications	700,793	51.8%	362,785	222,442	222,442	22.26%	49,508	28.74%	28.87%	14,226	13,302	100%	14,226	13,302
6	Trunk / Director Fees	378,154	51.8%	195,762	120,032	120,032	22.26%	26,715	28.74%	28.87%	7,877	7,178	100%	7,877	7,178
7	Computer Supplies / Repairs	51,761	51.8%	26,786	16,430	16,430	22.26%	3,657	28.74%	28.87%	1,051	982	100%	1,051	982
8	Office Expenses	98,210	51.8%	50,941	31,173	31,173	22.26%	6,938	28.74%	28.87%	1,894	1,864	100%	1,894	1,864
9	Employee Stock Purchase Plan	4,270	51.8%	2,210	1,355	1,355	22.26%	302	28.74%	28.87%	87	81	100%	87	81
10	Board of Director's Insurance	145,728	51.8%	75,440	48,256	48,256	22.26%	10,295	28.74%	28.87%	2,858	2,766	100%	2,858	2,766
11	Escrow & Transfer Agent Fees	75,000	51.8%	38,826	23,806	23,806	22.26%	5,268	28.74%	28.87%	1,523	1,424	100%	1,523	1,424
12	Training	76,343	51.8%	39,521	24,232	24,232	22.26%	5,363	28.74%	28.87%	1,550	1,449	100%	1,550	1,449
13	Stock Option expense	1,376,013	51.8%	712,331	438,767	438,767	22.26%	97,210	28.74%	28.87%	27,933	26,118	100%	27,933	26,118
14	Recruiting	54,095	51.8%	28,004	17,171	17,171	22.26%	3,822	28.74%	28.87%	1,098	1,027	100%	1,098	1,027
15	Meals and Entertainment	2,315	51.8%	1,198	735	735	22.26%	164	28.74%	28.87%	47	44	100%	47	44
16	Rent	84,861	51.8%	43,931	26,936	26,936	22.26%	5,995	28.74%	28.87%	1,723	1,611	100%	1,723	1,611
17	Communication	70,982	51.8%	36,887	23,070	23,070	22.26%	5,580	28.74%	28.87%	1,603	1,499	100%	1,603	1,499
18	Dues and Memberships	47,155	51.8%	24,411	14,968	14,968	22.26%	3,331	28.74%	28.87%	897	865	100%	897	865
19	Licenses/Fees & Permits	384,904	51.8%	198,256	122,174	122,174	22.26%	21,162	28.74%	28.87%	7,814	7,306	100%	7,814	7,306
20	Net Other Admin Costs	14,274	51.8%	7,389	4,531	4,531	22.26%	1,008	28.74%	28.87%	10,321	26,062	61%	9,283	15,885
21	Variance Due to Company's Monthly Allocation Factoring														
22	Total APUC Allocations Per RUCO	\$ 7,619,653		\$ 3,944,525				\$ 538,298			\$ 165,002	\$ 170,723		\$ 111,909	\$ 114,647
23	Company Water Division's APUC Cost Allocation Requested													179,481	160,629
24	Company Wastewater Division's APUC Cost Allocation Requested														
25	RUCO Recommended Water and Wastewater Division's APUC Cost Allocation Adjustment														
<p><b>Notes:</b></p> <p>Variance by Company Per Responses to RUCO DR 1.08 and Staff 5.2  RUCO Allowance Factor for the Variances Identified by Company</p> <p><b>References:</b>  Column (A) - Company response to Staff DR JMM - 10. (c) confirmed the accruals in that Column were tied-up to Actual Expenses for this rate case.</p>															
														<p><b>Water &amp; Wastewater</b>  \$ 36,413  61%</p>	
														<p><b>\$ (67,952) \$ (45,962)</b></p>	



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8  
9 **BEFORE THE ARIZONA CORPORATION COMMISSION**

10 IN THE MATTER OF THE  
11 APPLICATION OF LITCHFIELD PARK  
12 SERVICE COMPANY, AN ARIZONA  
13 CORPORATION, FOR A  
14 DETERMINATION OF THE FAIR  
15 VALUE OF ITS UTILITY PLANTS AND  
16 PROPERTY AND FOR INCREASES IN  
17 ITS WATER RATES AND CHARGES  
18 FOR UTILITY SERVICE BASED  
19 THEREON.

DOCKET NO: W-01427A-13-0043

20 IN THE MATTER OF THE  
21 APPLICATION OF LITCHFIELD PARK  
22 SERVICE COMPANY, AN ARIZONA  
23 CORPORATION, FOR A  
24 DETERMINATION OF THE FAIR  
25 VALUE OF ITS UTILITY PLANTS AND  
26 PROPERTY AND FOR INCREASES IN  
ITS WASTEWATER RATES AND  
CHARGES FOR UTILITY SERVICE  
BASED THEREON.

DOCKET NO: SW-01428A-13-0042

27  
28 **REJOINDER TESTIMONY OF**  
29 **THOMAS J. BOURASSA**

30 **RATE BASE, INCOME STATEMENT AND RATE DESIGN**

31 **December 4, 2013**

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,  
4 Phoenix, Arizona 85029.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. On behalf of Applicant Liberty Utilities (Litchfield Park Water & Sewer) Corp.  
7 ("LPSCO" or the Company).

8 **Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT AND REBUTTAL**  
9 **TESTIMONY IN THE INSTANT CASE?**

10 A. Yes, my direct and rebuttal testimonies were submitted in support of the initial  
11 application in this docket. There were two volumes at each stage, one addressing  
12 rate base, income statement and rate design, and the other addressing cost of  
13 capital. Each of those testimonies included my associated schedules.

14 **Q. WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?**

15 A. I will provide rejoinder testimony in response to the direct filings by Staff and  
16 RUCO again, in two separate volumes. This first volume of my rejoinder  
17 testimony relates to rate base, income statement and rate design for LPSCO.

18 **II. SUMMARY OF LPSCO'S REJOINDER POSITION**

19 **Q. WHAT ARE THE REVENUE INCREASES FOR THE WATER AND**  
20 **WASTEWATER DIVISIONS THAT THE COMPANY IS PROPOSING IN**  
21 **THIS REJOINDER TESTIMONY?**

22 A. For the water division, the Company proposes a total revenue requirement of  
23 \$12,870,428, which constitutes an increase in revenues of \$1,669,160, or 14.90  
24 percent over adjusted test year revenues. For the wastewater division, LPSCO  
25 proposes a total revenue requirement of \$10,866,424, which constitutes an increase  
26 in revenues of \$503,628, or 4.86 percent over adjusted test year revenues.

1 Q. CAN YOU PLEASE COMPARE THE PROPOSED REVENUE  
2 REQUIREMENTS AND RATE INCREASES FOR THE COMPANY,  
3 STAFF, AND RUCO AT THIS STAGE OF THE PROCEEDING?

4 A. For the water division, the proposed revenue requirements and proposed rate  
5 increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
6 Company Rebuttal	\$12,870,058	\$1,668,790	14.90%
7 Staff	\$12,276,127	\$1,074,737	9.59%
8 RUCO	\$12,371,943	\$1,111,850	9.87%
9 Company Rejoinder	\$12,870,428	\$1,669,160	14.90%

10  
11 For the wastewater division, the proposed revenue requirements and  
12 proposed rate increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
13 Company Rebuttal	\$10,886,824	\$ 524,028	5.06%
14 Staff	\$10,361,603	\$ (57,949)	-0.56%
15 RUCO	\$10,399,050	\$ 36,254	0.35%
16 Company Rejoinder	\$10,866,424	\$ 503,628	4.86%

17  
18 Q. THE COMPANY'S PROPOSED REVENUE REQUIREMENTS FOR BOTH  
19 DIVISIONS ARE LOWER. WHAT'S CHANGED?

20 A. The water division rate base is slightly lower due to a change in the Company's  
21 proposed accumulated deferred income tax ("ADIT") balance. The ADIT balance  
22 changed as a result of Company proposed rejoinder adjustments to the wastewater  
23 division's plant-in-service ("PIS") balance, which impacts the total ADIT balance  
24 and the allocated portions of ADIT to each division. With respect to the  
25 Company's rejoinder proposed changes to the wastewater division's PIS balance,  
26 the changes are a result of the final true-up to actual costs.

1 **III. RATE BASE**

2 **A. Water Division Rate Base**

3 **Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE**  
4 **BASE RECOMMENDATIONS FOR THE WATER DIVISION?**

5 **A.** Yes, for the water division the rate bases proposed by the Company, Staff and  
6 RUCO are as follows:

	<u>OCRB</u>	<u>FVRB</u>
Company Rebuttal	\$33,227,792	\$33,227,792
Staff	\$33,125,342	\$33,125,342
RUCO	\$33,093,677	\$33,093,677
Company Rejoinder	\$33,230,348	\$33,230,348

12 **1. Rejoinder Rate Base Adjustments**

13  
14 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
15 **ORIGINAL COST RATE BASE FOR THE WATER DIVISION?**

16 **A.** The Company's rejoinder rate base adjustments to the water division's OCRB are  
17 detailed on rejoinder schedules B-2, pages 3 through 8. Rejoinder Schedule B-2,  
18 pages 1 and 2, summarize the Company's proposed adjustments and the rejoinder  
19 OCRB. The Company's rejoinder water division rate base adjustments are the  
20 same as those described in the Company's rebuttal filing except the Company's is  
21 proposing a revision the ADIT balance. This one revision is discussed below.

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a. Accumulated Deferred Income Taxes (ADIT)

**Q. PLEASE DISCUSS THE COMPANY'S PROPOSED REJOINDER ADJUSTMENT TO DEFERRED INCOME TAXES FOR THE WATER DIVISION.**

A. In rejoinder B-2 adjustment 4, as shown on Schedule B-2, page 2, the Company proposes to reduce the ADIT balance by \$592,632, a slight increase compared to its rebuttal adjustment of \$590,078. The Company proposed rejoinder ADIT balance of \$866,443 is slightly lower than the proposed rebuttal balance of \$868,997 and represents the water division's allocated share of the total rejoinder combined ADIT balance for both divisions. The details of the computation are shown on Schedule B-2, pages 6.0 and 6.1. This adjustment recognizes the Company's rejoinder proposed water division PIS, A/D, AIAC, and CIAC balances.

**Q. ARE THERE DIFFERENCES IN THE RECOMMENDED ADIT BALANCES BETWEEN THE PARTIES?**

A. Yes, but only because each party has its own respective recommended PIS, A/D, AIAC and CIAC balances. Neither the methodology nor the tax rates employed are in dispute.

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1                   2.     Water Division Remaining Rate Base Issues

2                   a.     Plant-in-service (PIS)

3     Q.    PLEASE DISCUSS THE RECOMMENDED PIS BALANCES OF THE  
4           PARTIES AND IDENTIFY ANY DIFFERENCES BETWEEN THE  
5           PARTIES.

6     A.   All the parties agree on a total PIS balance for the water division of \$90,867,014.<sup>1</sup>  
7           However, there remain some minor differences in the individual plant account  
8           balances between the Company and Staff. Specifically, the Company recommends  
9           a plant balance of \$874,290 for plant account 311 – Pumping Equipment, whereas  
10          Staff recommends a balance of \$ \$880,845, which is higher than the Company  
11          balance by \$6,555. Also, the Company recommends a plant account balance of  
12          \$657,653 for plant account 340 – Office Furniture and Equipment, while Staff  
13          recommends a balance of \$ \$651,096, which is lower than the Company balance by  
14          \$6,557 (\$6,555 plus \$2 difference due to rounding). As I explained in my rebuttal  
15          testimony, the Company believes these differences arise because the Company  
16          followed the reclassification adjustments set forth in Ms. Hains' direct testimony,  
17          but the Staff reclassification adjustment does not.<sup>2</sup>

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23                   \_\_\_\_\_  
24     <sup>1</sup> See LPSCO Rejoinder Water Division Schedule B-2, page 1, and RUCO Surrebuttal Water Division  
25     Schedule RBM-2, Staff Surrebuttal Schedule DWC-W3. Note: Staff's PIS balance is \$1 higher than  
26     LPSCO's balance and RUCO's balance due to rounding.

<sup>2</sup> See Rebuttal Testimony of Thomas J. Bourassa – Rate Base, Income Statement and Rate Design  
                  ("Bourassa Rb.") at 7.



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1           The third item in Table 1 is related to the parties' PIS reclassification  
2 adjustment. The difference in the A/D adjustment appears to be due to a difference  
3 between the Company and Staff in the specific plant account adjusted in the  
4 parties' respective plant reclassification adjustments. As I mentioned earlier, there  
5 is an inconsistency between Ms. Hains' recommendations and the Staff schedules.  
6 If Ms. Hains' recommendations are correct (which the Company followed), then  
7 Staff's A/D adjustment is incorrect.

8           The fourth item in Table 1 is related to the PIS adjustments for duplicate  
9 invoices. Staff's A/D adjustment is incomplete because Staff only adjusts one of  
10 the two depreciable accounts impacted by the PIS adjustment. Staff has not  
11 explained why it did not propose an adjustment for both PIS accounts impacted by  
12 its proposed PIS adjustment.

13           Finally, the fifth item in Table 1 is related to in the Company's  
14 PIS additions recorded in the wrong year. The Company's adjustment of \$91,841  
15 was based upon a response to Staff data request JMM 1-16, which showed the A/D  
16 impact for each addition recorded in the wrong year. RUCO has adopted the  
17 Company recommendation whereas Staff recommends an A/D adjustment of  
18 \$99,151.

19           c.     Contributions-in-aid of Construction (CIAC)

20   Q.   PLEASE DISCUSS THE RECOMMENDED CIAC BALANCES AND  
21 IDENTIFY ANY DIFFERENCES BETWEEN THE PARTIES.

22   A.   All of the parties are in agreement on a gross CIAC balance of \$7,245,812.<sup>5</sup>  
23 With respect to accumulated amortization of CIAC, both the Company and RUCO  
24

25 \_\_\_\_\_  
26 <sup>5</sup> See LPSCO Rejoinder Water Division Schedule B-2, page 1, Staff Surrebuttal Schedule DWC-W3, and  
RUCO Surrebuttal Water Division Schedule RBM-2.

1 are in agreement on a balance of \$1,285,854.<sup>6</sup> Staff recommends an accumulated  
2 amortization balance of \$1,296,248.<sup>7</sup> Staff provides no details and has not  
3 explained why its accumulated amortization balance is higher.<sup>8</sup>

4 **d. Deferred Regulatory Assets**

5 **Q. ARE THE PARTIES IN AGREEMENT ON DEFERRED REGULATORY**  
6 **ASSET BALANCE FOR THE WATER DIVISION?**

7 A. Yes, we appear to be in agreement on a Deferred Regulatory Asset balance of  
8 \$91,067.<sup>9</sup>

9 **e. Customer Security Deposits**

10 **Q. PLEASE DISCUSS THE RECOMMENDED CUSTOMER SECURITY**  
11 **DEPOSIT BALANCES.**

12 A. The Company and Staff are in agreement on a Customer Security Deposits balance  
13 of \$147,661, while RUCO recommends a balance of \$147,932, a difference of  
14 \$271.<sup>10</sup> The Company recommendation adopts the Staff proposed balance.

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21 <sup>6</sup> See LPSCO Rejoinder Water Division Schedule B-2, page 1, and RUCO Surrebuttal Water Division  
22 Schedule RBM-2.

23 <sup>7</sup> See Staff Surrebuttal Schedule DWC-W3.

24 <sup>8</sup> Compare LPSCO Rejoinder Water Division Schedule B-2, pages 5.1 to 5.3, and RUCO Surrebuttal  
25 Water Division Schedule RBM 6, pages 2 to 6.

26 <sup>9</sup> See LPSCO Rejoinder Water Division Schedule B-2, page 1, Staff Surrebuttal Schedule DWC-W3, and  
RUCO Surrebuttal Water Division Schedule RBM-2. RUCO's balance is \$2 higher due to rounding.

<sup>10</sup> See LPSCO Rejoinder Water Division Schedule B-2, page 1, Staff Surrebuttal Schedule DWC-W3, and  
RUCO Surrebuttal Water Division Schedule RBM-2.

1                                    f.    Customer Meter Deposits

2    Q.    PLEASE DISCUSS THE RECOMMENDED CUSTOMER METER  
3           DEPOSIT BALANCES OF THE PARTIES AND IDENTIFY ANY  
4           DIFFERENCES.

5    A.    The Company and Staff are in agreement on a Customer Meter Deposits balance of  
6           \$1,271,802. RUCO recommends a balance of \$1,432,787, which is \$160,986  
7           higher than the Company's recommended balance.<sup>11</sup> RUCO's recommend balance  
8           continues to reflect the use of a 13-month average of the meter deposits balance  
9           rather than the test year-end balance. The Company disagrees with the RUCO;  
10          this reduction to rate base is based on a rate base mismatch.<sup>12</sup>

11   Q.    PLEASE RESPOND TO MR. MEASE'S TESTIMONY (SB at PAGE 10)  
12          THAT THE USE OF A 13-MONTH AVERAGE FOR CUSTOMER METER  
13          DESPOSITS PROVIDES A MORE ACCURATE REPRESENTATION OF  
14          THE ACTUAL BALANCE.

15   A.    The year-end 2012 is an accurate balance of the meter and service line installation  
16          charges collected because it matches the amount of meter and service line costs  
17          funded with these charges and included in the PIS balance at the end of the test  
18          year. Customer meter deposits are a form of AIAC. When AIAC funded plant is  
19          added to rate base the net impact on rate base is always zero. RUCO's proposed  
20          adjustment increases the deposits balance creating more AIAC than the amount of  
21          meter and service line costs included in the PIS. As a consequence, the rate base  
22          impact from the RUCO recommendation is a net negative, not zero.

23  
24  
25       <sup>11</sup> See LPSCO Rejoinder Water Division Schedule B-2, page 1, Staff Surrebuttal Schedule DWC-W3, and  
         RUCO Surrebuttal Water Division Schedule RBM-2.

26       <sup>12</sup> Bourassa Rb. at 14.

1 RUCO's adjustment is one-sided and only serves to deprive the Company from  
2 earning a return on roughly \$160,000 of its invested capital.

3 **Q. IS MR. MEASE RIGHT THAT THE INCLUSION OF POST TEST YEAR**  
4 **PLANT CREATES A SIMILAR RATE BASE MISMATCH?**

5 A. No. There is no additional CIAC or AIAC that needs to be included in rate base as  
6 the result of the inclusion of post-test year ("PTY") plant. Therefore, there is no  
7 rate base mismatch. By contrast, RUCO's proposal is to increase customer meter  
8 deposits based on an average that creates additional deposits (AIAC) out of thin air  
9 and which do not match the meter and service line costs that are included in PIS.

10 **B. Wastewater Division Rate Base**

11 **Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE**  
12 **BASE RECOMMENDATIONS FOR THE WATER DIVISION?**

13 A. Yes, for the water division the rate bases proposed by the Company, Staff and  
14 RUCO, are as follows:

	<u>OCRB</u>	<u>FVRB</u>
Company Rebuttal	\$24,264,817	\$24,264,817
Staff	\$23,428,440	\$23,428,440
RUCO	\$24,275,426	\$24,275,426
Company Rejoinder	\$24,153,028	\$24,153,028

20 **1. Rejoinder Rate Base Adjustments**

21  
22 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
23 **ORIGINAL COST RATE BASE FOR THE WASTEWATER DIVISION?**

24 A. Yes. The Company's rejoinder rate base adjustments to the wastewater division's  
25 OCRB are detailed on rejoinder schedules B-2, pages 3 through 7. Rejoinder  
26 Schedule B-2, pages 1 and 2, summarize the Company's proposed adjustments and

1 the rejoinder OCRB. The Company's rejoinder wastewater division rate base  
2 adjustments are the same as those described in the Company's rebuttal filing except  
3 the Company's is proposing a revision to its PIS adjustments for PTY plant and  
4 related retirements, and a revision to its adjustment to the ADIT balance.  
5 These revisions are explained further below.

6 a. **Plant-in-service (PIS)**

7 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
8 **REJOINDER ADJUSTMENTS TO PLANT-IN-SERVICE FOR THE**  
9 **WASTEWATER DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU**  
10 **HAVE ACCEPTED FROM STAFF AND/OR RUCO?**

11 A. Rejoinder B-2 adjustment 1A as shown on Rejoinder Schedule B-2, page 3, adjusts  
12 PIS to reflect the final true-up to the actual cost of the Company's proposed post-  
13 test year plant. The actual final cost is \$1,102,722.

14 Rejoinder Adjustment 1B reverses the Company's post-test year plant  
15 retirement amounts from the direct filing and a true-up to the actual retirement  
16 amount equal to \$38,457.

17 **Q. PLEASE SUMMARIZE THE RECOMMENDED PIS BALANCES OF THE**  
18 **PARTIES AND THE DIFFERENCES.**

19 A. The Company is recommending a total PIS balance of \$74,460,070. Staff is  
20 recommending a total PIS balance of \$73,395,842.<sup>13</sup> Staff's recommended  
21 PIS balance is \$1,064,228 lower than the Company's recommendation. Below is a  
22 summary of the specific difference in each of the parties PIS adjustments.  
23  
24  
25

26 <sup>13</sup> See Staff Schedule DWC-WW3.

Table 2

<u>Adjustment Description</u>	<u>Staff</u>	<u>Company</u>	<u>Difference</u>	<u>Staff Adj #</u>	<u>LPSCO Adj #</u>
1. Post Test Year Plant	\$ -	\$1,102,722	\$1,102,722	#1	1A
2. Post Test Year Retirements	-	(38,457)	(38,457)	#1	1A
3. Plant Reclassification	6,000	12,156	6,156	#5	1D
4. Retirements & Reclassification	(917)	(7,110)	(6,193)	#2	1G
Total	\$ 5,083	\$1,069,311	\$1,064,228		

Items 1 and 2 in Table 2 relate to the Company's PTY plant recommendation. Staff is not recommending any PTY plant or related PTY retirements as of their surrebuttal filing although Staff was only recently able to complete its final inspection of the plant and examine the documentation for the final costs. Mr. Krygier discusses this issue further in his rejoinder testimony.<sup>14</sup>

Item 3 in Table 2 relates to the Company's plant reclassification, which adjustment results in a net increase to PIS of \$12,156. Staff's adjustment results in a net increase of \$6,000, a difference of \$6,159 to the Company's recommended net adjustment. This difference arises because the Company adjusts account 380 – Treatment and Disposal equipment by \$476,749, whereas Staff's adjustment is \$470,592. As I explained in my rebuttal testimony, I followed the reclassification detail provided by Staff witness, Ms. Hains, even though the Staff schedules were inconsistent with that detail.<sup>15</sup> Staff did not take the opportunity in its surrebuttal to explain the inconsistency that I identified in my rebuttal.

Finally, with respect to item 4 in Table 2, the Staff adjustment is incomplete because Staff only includes one side of the Company proposed reclassification adjustment. Let me explain. The Company's reclassification adjustment (as shown on Rejoinder Schedule B-2, page 3.7) reclassifies \$6,193 from plant

<sup>14</sup> See Rejoinder Testimony of Chris Krygier ("Krygier Rj.") at 2.

<sup>15</sup> Bourassa Rb. at 16.

1 account 391 – Transportation Equipment (a decrease of \$6,193 to transportation  
2 equipment) to plant account 389 - Other Plant and Miscellaneous Equipment (an  
3 increase of \$6,193 to other plant and misc. equipment). Staff only recognizes the  
4 increase to account 389 - Other Plant and Miscellaneous Equipment and ignores  
5 the corresponding decrease to account 391 – Transportation Equipment.  
6 Staff's adjustment is one-sided and should be corrected.

7 **Q. WHAT ABOUT DIFFERENCES IN PIS BETWEEN THE COMPANY AND**  
8 **RUCO?**

9 A. RUCO is recommending a total PIS balance of \$74,595,805.<sup>16</sup>  
10 RUCO's recommended PIS balance is \$135,735 higher than the Company's  
11 recommendation. Below is a summary of the specific difference in each of the  
12 parties' PIS adjustments:

13 Table 3

<u>Adjustment Description</u>	<u>RUCO</u>	<u>Company</u>	<u>Difference</u>	<u>RUCO Adj #</u>	<u>LPSCO Adj #</u>
1. Post Test Year Plant	\$1,200,000	\$1,102,722	\$ (97,278)	#1	1A
2. Post Test Year Retirements	-	(38,457)	(38,457)	#1	1A
Total	\$1,200,000	\$1,064,265	\$ (135,735)		

17  
18 With regard to items 1 and 2 in Table 3, RUCO recommends including PTY  
19 plant of \$1,200,000 and \$0 in retirements, which is a reflection of the Company's  
20 rebuttal estimate.<sup>17</sup> The final costs were not available to RUCO until after its  
21 surrebuttal filing so RUCO's position is understandable. However, since RUCO  
22 has consistently supported the inclusion of the PTY plant in rate base, I would  
23 expect RUCO to update its recommendation at hearing and in final schedules.  
24

25 <sup>16</sup> See RUCO Wastewater Division Schedule RBM-2.

26 <sup>17</sup> Bourassa Rb. at 15.



2. Accumulated Depreciation (A/D)

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED REJOINDER ADJUSTMENTS TO ACCUMULATED DEPRECIATION FOR THE WASTEWATER DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. Yes, Rejoinder B-2 adjustment 2A as shown on Rejoinder Schedule B-2, page 4, adjusts PIS to reflect retirements related to the Company proposed PTY plant and a half-year of A/D on that plant.

Q. PLEASE DISCUSS THE RECOMMENDED A/D BALANCES OF THE PARTIES AND IDENTIFY ANY DIFFERENCES BETWEEN THE PARTIES.

A. The Company recommends an A/D balance of \$13,548,214.<sup>18</sup> Staff recommends an A/D balance of \$13,251,313, which is \$296,901 lower than the Company's recommended balance.<sup>19</sup> The following summarizes the differences in the specific A/D adjustments between Staff and the Company and illustrates the total difference in A/D of \$277,551:

Table 4

<u>Adjustment Description</u>	<u>Staff</u>	<u>Company</u>	<u>Difference</u>	<u>Staff</u> <u>Adj #</u>	<u>LPSCO</u> <u>Adj #</u>
1. PTY Plant Retirements	\$(300,000)	\$ (38,427)	\$ 261,543	#1	2A
2. PTY Plant A/D	-	19,350	19,350	None	2A
3. True-up of Accruals	-	(3,136)	3,136	#3	2B
4. Plant Reclassification	18,194	32,185	13,991	#5	2C
5. Duplicate Invoices	-	(214)	(214)	#7	2E
6. Retirements and Reclass	(5,406)	(10,515)	(5,109)	#2	2F
7. Plant Adds – Wrong Years	0	7,711	7,711	#4	2G
8. A/D Reconciliation	0	(3,508)	(3,508)	None	2H
Total	\$(287,212)	\$ 9,688	\$ 296,901		

<sup>18</sup> See LPSCO Rejoinder Wastewater Division Schedule B-2, page 1.

<sup>19</sup> See Staff Surrebuttal Schedule DWC-WW3.

1 With regard to item 1 in Table 4, Staff has not reversed the Company's A/D  
2 adjustment of \$300,000. This is inconsistent with the Staff position in surrebuttal  
3 to disallow the PTY pant and the PTY related retirements as I discussed earlier (on  
4 page 12). That said, the Company is proposing PTY plant related PIS retirements  
5 of \$38,427

6 Item 2 in Table 4 is related to A/D on the Company proposed PTY plant.  
7 The Company is proposing A/D equal to one-half year of depreciation.

8 Item 3 in Table 4 is related to the Company's PIS adjustment to true-up  
9 plant. Since the PIS adjustment impacts depreciable plant, an adjustment to A/D is  
10 necessary. Both the Company and Staff agree on the PIS adjustment to true-up PIS  
11 to the accruals, but Staff does not propose an A/D adjustment and it has not  
12 explained why.

13 Item 4 in Table 4 is related to the Company's PIS reclassification  
14 adjustment. The Company and Staff propose similar PIS reclassification  
15 adjustments. The difference in the A/D adjustment appears to be primarily due to  
16 errors in Staff's computation of A/D I identified in my rebuttal testimony, but Staff  
17 did not address this in its surrebuttal filing.<sup>20</sup>

18 Item 5 in Table 4 is related to the Company's PIS adjustment for duplicate  
19 invoices. The Company and Staff propose the same PIS adjustment for duplicate  
20 invoices but Staff does not propose a related A/D adjustment. Since the PIS  
21 adjustment impacts depreciable plant, an adjustment to A/D is necessary.  
22 Again, Staff has not explained why it did not propose an adjustment.

23 Item 6 in Table 4 is related to additional plant retirements and  
24 reclassifications proposed by the Company in its rebuttal filing. It is unclear how  
25

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26 <sup>20</sup> Bourassa Rb. at 19.

Staff computed its A/D adjustment so I cannot provide further comment.

With respect to the item 7 in Table 4, the Company's adjustment of \$7,711 is related to plant added in the wrong years. The Company and Staff propose the same PIS adjustment but Staff does not propose an related A/D adjustment. Since the PIS adjustment impacts depreciable plant, an adjustment to A/D is necessary. Staff has not explained why it did not propose an adjustment.

Finally, item 8 in Table 4 is related to the reconciliation of A/D to the reconstructed detail. Staff does not propose a similar adjustment.

**Q. WHAT ABOUT RUCO?**

A. RUCO recommends an A/D balance of \$13,563,675, which is \$15,361 higher than the Company's recommended balance of \$13,548,214.<sup>21</sup> The following summarizes the differences in the specific A/D adjustments between RUCO and the Company which explain the total difference in A/D of \$15,459:

Table 4

<u>Adjustment Description</u>	<u>RUCO</u>	<u>Company</u>	<u>Difference</u>	<u>RUCO Adj #</u>	<u>LPSCO Adj #</u>
1.PTY Plant Retirements	\$ -	\$ (38,457)	\$ (38,457)	#1	2A
2. PTY Plant A/D	-	19,350	19,350	None	2A
3. RUCO A/D Reconstruction	(3,648)	0	3,648	#1	None
Total	\$ (3,648)	\$ (19,107)	\$ (15,459)		

With regard to item 1 in Table 4, RUCO is not proposing any PTY plant related retirements at this stage of the proceeding. As I mentioned earlier (on pages 13 and 14), RUCO has not yet had an opportunity to review the Company's final proposed retirements.

<sup>21</sup> See LPSCO Rejoinder Wastewater Division Schedule B-2, page 1, and RUCO Surrebuttal Wastewater Schedule RBM-2.

1 Item 2 in Table 4 reflects a half-year of depreciation on the Company's  
2 proposed PTY plant. RUCO has not finalized its recommendation on this plant so  
3 the lack of an adjustment is understandable. The Company is proposing this  
4 additional accumulated depreciation to help eliminate potential issues between the  
5 parties.

6 With respect to items 3 in Table 4, RUCO is proposing an A/D  
7 reconciliation adjustment of \$3,648, which the Company does not propose.  
8 The Company's A/D reconciliation adjustment is \$3,508, which RUCO has  
9 adopted.<sup>22</sup> It appears RUCO position is that another A/D adjustment equal to  
10 \$3648 is required based upon its reconciliation. The Company disagrees that any  
11 additional A/D adjustment is required to reconcile A/D with the re-computed  
12 balance.

13 **3. Accumulated Deferred Income Taxes (ADIT)**

14 **Q. PLEASE DISCUSS THE COMPANY'S PROPOSED REJOINDER**  
15 **ADJUSTMENT TO DEFERRED INCOME TAXES FOR THE**  
16 **WASTEWATER DIVISION.**

17 **A.** In rejoinder B-2 adjustment 4, as shown on Schedule B-2, page 2, the Company  
18 proposes to reduce the ADIT balance by \$352,060. The Company's rejoinder  
19 proposed ADIT balance of \$630,258 represents the wastewater division's allocated  
20 share of the total rejoinder ADIT balance of the Company. The details of the  
21 computation are shown on Schedule B-2, pages 6.0 and 6.1. This adjustment  
22 recognizes the Company's rejoinder proposed wastewater division PIS, A/D,  
23 AIAC, and CIAC balances.

24  
25  
26 <sup>22</sup> See RUCO Wastewater Division Schedule RBM-4(a), adjustment number 10.

1 Q. ARE THERE DIFFERENCES IN THE RECOMMENDED ADIT  
2 BALANCES BETWEEN THE PARTIES?

3 A. Yes. However, Staff's and RUCO's ADIT balances reflect each of those parties'  
4 respective recommended PIS, A/D, AIAC and CIAC balances. As with the water  
5 division, the methodology and tax rates employed do not appear to be in dispute.

6 4. Remaining Wastewater Division Rate Base Issues

7 a. Customer Security Deposits

8 Q. PLEASE DISCUSS THE RECOMMENDED CUSTOMER SECURITY  
9 DEPOSIT BALANCES OF THE PARTIES AND IDENTIFY ANY  
10 DIFFERENCES.

11 A. The Company and Staff are in agreement on a Customer Security Deposits balance  
12 of \$163,774, while RUCO recommends a balance of \$163,993, a difference of  
13 \$219.<sup>23</sup> The Company recommendation adopts the Staff proposed balance.

14 b. Customer Meter Deposits

15 Q. PLEASE COMMENT ON RUCO'S PROPOSED ADJUSTMENT TO  
16 CUSTOMER METER DEPOSITS.

17 A. RUCO continues to propose to increase customer meter deposits balance using a  
18 13-month average. The Company does not agree with this adjustment because it  
19 will result in a rate base mismatch for the reasons explained previously (on pages 9  
20 and 10).

21  
22  
23  
24  
25  
26 <sup>23</sup> See LPSCO Rejoinder Wastewater Division Schedule B-2, page 1, Staff Surrebuttal Schedule DWC-  
WW3, and RUCO Surrebuttal Wastewater Division Schedule RBM-2.

1 **IV. INCOME STATEMENT**

2 **A. Water Division Revenue and Expenses**

3 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
4 **ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE WATER**  
5 **DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU HAVE**  
6 **ACCEPTED FROM STAFF AND/OR RUCO?**

7 **A.** The Company rejoinder adjustments for the water division are detailed on  
8 Rejoinder Schedule C-2, pages 1-12. The rejoinder income statement with  
9 adjustments is summarized on Rejoinder Schedule C-1, page 1-2. The Company's  
10 rejoinder adjustments are the same as described in my rebuttal testimony except for  
11 revisions due to changes in the Company proposed revenue requirement from the  
12 changes to rate base. These revisions include rejoinder adjustments numbered 2,  
13 10 and 11 reflecting property and income tax expense and interest synchronization  
14 at the Company's rejoinder proposed revenues.

15 **1. Remaining Issues in Dispute (Water)**<sup>24</sup>

16 **a. Interest Expense on Customer Security Deposits**

17 **Q. PLEASE RESPOND TO MR. MEASE'S SURREBUTTAL TESTIMONY**  
18 **(AT PAGE 27) THAT THE COMPANY'S SECURITY DEPOSIT INTEREST**  
19 **EXPENSE ADJUSTMENT REFLECTS 13-MONTHS OF INTEREST**  
20 **EXPENSE.**

21  
22  
23  
24  
25 <sup>24</sup> Mr. Krygier addresses the Declining Usage Adjustment and RUCO's opposition in his rejoinder  
26 testimony. Krygier Rj. at 3-4. Mr. Krygier also provides rejoinder on the pension benefits issue. *Id.* at 4.  
And Mr. Sorensen provides testimony in response to RUCO's continued opposition to full recovery of  
performance based wages. *See generally* Rejoinder Testimony of Greg Sorensen.

1 A. That is true. The Company adopted Staff's adjustment, which adjustment uses 13  
2 months of interest expense. Using 13 months of interest is more consistent with  
3 the use of a 13-month average customer security deposit balance in rate base,  
4 which Staff, RUCO, and the Company also recommend in the instant case.

5 **B. Wastewater Division Revenue and Expenses**

6 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
7 **ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE**  
8 **WASTEWATER DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU**  
9 **HAVE ACCEPTED FROM STAFF AND/OR RUCO?**

10 A. The Company rejoinder adjustments for the wastewater division are detailed on  
11 Rejoinder Schedule C-2, pages 1-12. The rejoinder income statement with  
12 adjustments is summarized on Rejoinder Schedule C-1, page 1-2. The Company's  
13 rejoinder adjustments are the same as described in my rebuttal testimony except for  
14 revisions to the Company recommended depreciation expense (due to a change to  
15 PIS as discussed on Page 14), and revisions to property tax expense, interest  
16 synchronization, and income tax expense (due to changes in the Company  
17 proposed revenue requirement).

18 Rejoinder adjustment 1 reflects the annualized depreciation expense based  
19 upon the Company's recommend PIS balances. Staff and RUCO recommend  
20 depreciation expense levels different than the Company due to the different  
21 respective recommended PIS and CIAC balances.

22 Rejoinder adjustments numbered 2, 10 and 11 adjust property tax expense,  
23 interest expense and income tax expense to reflect the Company's proposed  
24 rejoinder revenues.  
25  
26

1 Q. ARE THERE ANY REMAINING EXPENSE OR REVENUE ISSUES IN  
2 DISPUTE WITH RUCO AND/OR STAFF CONCERNING THE  
3 WASTEWATER DIVISION.

4 A. Yes, but they are the issues discussed by Mr. Sorensen and Mr. Krygier as I noted  
5 above.

6 V. RATE DESIGN

7 A. Water Division

8 Q. WHAT ARE THE COMPANY'S REJOINDER PROPOSED RATES FOR  
9 WATER SERVICE?

10 A. The Company's proposed rates are:  
11 MONTHLY SERVICE CHARGES

12	5/8" x 3/4" Meters	\$13.88
13	3/4" Meters	\$13.88
14	1" Meters – Residential Only	\$31.20
15	1" Meters	\$34.70
16	1 1/2" Meters	\$69.40
17	2" Meters	\$111.04
18	3" Meter	\$222.08
19	4" Meters	\$347.00
20	6" Meter	\$694.00
21	6" Meter – Bulk Resale Only	\$575.00
22	8" Meters	\$1,110.40
23	10" Meters	\$1,596.20
24	12" Meters	\$2,984.20
25	Construction	\$0.00



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COMMODITY RATES

5/8" X 3/4" Meters (Residential)	1 to 3,000	\$ 1.00
	3,001 to 11,000	\$ 1.95
	11,001 to 20,000	\$ 2.94
	Over 20,000	\$ 3.36
5/8" X 3/4" Meters	1 to 9,000	\$ 1.95
	Over 9,000	\$ 3.36
3/4" Meters (Residential)	1 to 3,000	\$ 1.00
	3,001 to 11,000	\$ 1.95
	11,001 to 20,000	\$ 2.95
	Over 20,000	\$ 3.36
3/4" Meters	1 to 20,000	\$ 1.95
	Over 20,000	\$ 3.36
1" Meters (Residential)	1 to 5,000	\$ 1.00
	5,001 to 20,000	\$ 1.95
	20,001 to 30,000	\$ 2.95
	Over 30,000	\$ 3.36
1" Meters	1 to 20,000	\$ 1.95
	Over 20,000	\$ 3.36
1 1/2" Meters	1 to 40,000	\$ 1.95
	Over 40,000	\$ 3.36
2" Meters	1 to 60,000	\$ 1.95
	Over 60,000	\$ 3.36
3" Meters	1 to 120,000	\$ 1.95
	Over 120,000	\$ 3.36

1	4" Meters	1 to 180,000	\$ 1.95
2		Over 180,000	\$ 3.36
3	6" Meters	1 to 360,000	\$ 1.95
4		Over 360,000	\$ 3.36
5	8" Meters	1 to 650,000	\$ 1.95
6		Over 650,000	\$ 3.36
7	8" Meters (Bulk Resale Only)	All Gallons	\$ 1.65
8	10" Meters	1 to 940,000	\$ 1.95
9		Over 940,000	\$ 3.36
10	12" Meters	1 to 1,200,000	\$ 1.95
11		Over 1,200,000	\$ 3.36
12	Construction Water	All Gallons	\$ 3.36

13  
14 **Q. WHAT IS THE AVERAGE MONTHLY BILL FOR THE 3/4 INCH**  
15 **METERED CUSTOMERS UNDER PRESENT RATES?**

16 A. As shown on Rebuttal Schedule H-2, page 1, the average monthly bill under  
17 present rates for a 3/4 inch residential customer (the largest customer class) using  
18 an average 9,320 gallons is \$24.33.

19 **Q. WHAT WILL BE THE AVERAGE 3/4 INCH RESIDENTIAL CUSTOMER**  
20 **AVERAGE MONTHLY BILL UNDER THE NEW RATES?**

21 A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates  
22 for a 3/4 inch residential customer using an average 9,320 gallons is \$28.07 – a  
23 \$3.91 increase over the present monthly bill or a 16.08 percent increase.

24 **Q. HAVE YOU MADE ANY CHANGES TO THE RATE DESIGN FROM THE**  
25 **REBUTTAL FILING?**

26 A. No.

1 **Q. HAVE YOU CHANGED THE ALLOCATION OF REVENUE RECOVERY**  
2 **FROM THE MONTHLY MINIMUMS AND THE COMMODITY RATES?**

3 A. No. Revenue recovery from the monthly minimums and the commodity rates is the  
4 same as described in my rebuttal testimony. I have included a revenue recovery  
5 breakdown of the Company's proposed rates in Rejoinder **Exhibit TJB-RB-RJ1**.

6 **Q. WHAT ARE YOU TRYING TO ACHIEVE WITH THE COMPANY'S**  
7 **PROPOSED RATE DESIGN?**

8 A. That the rate design will be conservation oriented is a given. The Commission has  
9 been using inverted tier rate designs for water utilities for more than a decade.  
10 With that starting point, my primary objective is to ensure revenue stability.

11 **Q. SHOULD THE COMMISSION ALSO BE CONCERNED ABOUT**  
12 **REVENUE STABILITY?**

13 A. Absolutely. I will explain.

14 The inverted tier rate design utilized by the Commission is characterized by  
15 relatively low revenue recovery from the monthly minimums and relatively high  
16 revenue recovery from the upper tier commodity rates. In order to ensure that the  
17 conservation benefit does not erode the utility's revenues and deprive it of a  
18 reasonable opportunity to earn its authorized return, the tier levels require a  
19 delicate balance. The Company does not believe that balance was achieved in its  
20 last rate case.<sup>25</sup> In fact, as I discussed in my rebuttal testimony, the inability to  
21 recover the authorized revenue requirement in Arizona is a significant and ongoing  
22 problem.<sup>26</sup> This creates disincentives to investment, inhibits efforts to promote rate  
23 gradualism, and generally undermines the health of Arizona's regulated water and  
24 sewer industry. It is not anti-conservation to ensure that does not deprive utilities

25 <sup>25</sup> See Direct Testimony of Thomas J. Bourassa – Rate Base, Income Statement and Rate Design at 20.

26 <sup>26</sup> Bourassa Rb. at 52-53.

1 of the opportunity to recover their authorized revenue requirement.

2 **Q. CAN THE REVENUE LOSS THE COMPANY HAS SUFFERED BE**  
3 **QUANTIFIED?**

4 A. Yes. The current rate design, which was adopted in the prior rate case against my  
5 recommendations and over the Company's objections, has resulted in revenue loss  
6 of nearly \$600,000.

7 **Q. HAVE YOU PREPARED AN EXHIBIT THAT SHOWS THE REVENUE**  
8 **LOSS THAT HAS OCCURRED?**

9 A. Yes, Rejoinder Exhibit TJB-RB-RJ2 is a schedule comparing the expected  
10 revenues for the test year based on the average customer bill in the prior rate case  
11 with the current test year revenues based upon the test year average customer bill.  
12 For most customer classes, the current test year average bill is less, meaning  
13 reduced water usage. As a result, the current test year revenues are lower than  
14 expected by over \$590,000. The Company is requesting a revenue increase of  
15 \$1,669,160 in the instant case, so the revenue loss has contributed to more than  
16 35 percent of the requested revenue increase.

17 **Q. WHY HAVE TEST YEAR REVENUES DECREASED SO MUCH?**

18 A. Because the use of inverted tier rate designs to promote conservation is working.  
19 The proof of the Commission's rate design impact is evident in Exhibit TJB-RB-  
20 RJ2. A simple example is to look at the two largest customer classes where the  
21 average bill for the ¾ inch and 1 inch customers has decreased since the last rate  
22 case. The ¾ inch customer bill decreased from a \$29.24 to \$27.21 and the 1 inch  
23 customer bill decreased \$50.49 to \$47.82.

24 **Q. THAT SEEMS COUNTERINTUITIVE. DIDN'T LPSCO RECEIVE A**  
25 **LARGE RATE INCREASE IN THE LAST RATE CASE?**

1 A. Yes, it was significant since the Company had not been in for a rate case for a  
2 number of years. Even though the rate increase was significant, customer bills  
3 decreased on average because customers used less water. Less water sales means  
4 less revenue than the Company would have otherwise recovered during the test  
5 year. The loss of revenue due to reduced water sales from conservation is the  
6 revenue instability that must be balanced in the rate design.

7 **Q. HOW HAS THE COMMISSION BALANCED CONSERVATION AND**  
8 **REVENUE STABILITY IN WATER RATE DESIGNS?**

9 A. I respectfully have to testify that in the past the Commission has not done a very  
10 good job balancing things. That's why LPSCO's revenues were down \$600,000  
11 annually from where they were expected to be. And LPSCO was not alone.<sup>27</sup>  
12 More recently, however, the rate designs adopted in the recent rate cases for Rio  
13 Rico Utilities, Pima Utility Company, and Arizona Water Company allow for  
14 greater proportions of revenue recovery from the monthly minimums than the same  
15 utilities would have seen just a few years ago. If the Commission to continue to  
16 avoid overloading the recovery of revenue from the commodity rates, we will  
17 finally see the necessary balance brought to the process.

18 **Q. WHAT WERE THE ALLOCATIONS BETWEEN MONTHLY MINIMUMS**  
19 **AND COMMODITY RATES IN THOSE CASES?**

20 A. Below is a summary of the percentages of revenue recovery from the monthly  
21 minimums in the recent cases I mentioned, along with the recommended  
22 allocations by the parties in this rate case which I have included here for  
23 comparison:  
24  
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26 <sup>27</sup> See Bourassa Rb. at 52-53.

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<u>Company</u>	<u>Decision No.</u>	<u>% Revenue Recovery from Monthly Minimums</u>
Rio Rico Utilities, Inc.	73996 (July 30, 2013)	42.2%
Pima Utility Company	73573 (Nov. 21, 2012)	40.6%
Arizona Water – Eastern Group	73736 (Feb. 20, 2013)	51%
Arizona Water – Northern Group	74081 (Sept. 23, 2013)	50%
LPSCO	Recommended	40.5%
Staff	Recommended	32.2%
RUCO	Recommended	35.7%

**Q. HOW DO THE MONTHLY MINIMUMS COMPARE?**

A. Below is a comparison of the monthly minimums for RRUI and the monthly minimums proposed by LPSCO, Staff, and RUCO:

Table 5

	AWC Eastern Grp.	AWC Northern Grp	Pima	RRUI	Proposed LPSCO	Proposed Staff	Proposed RUCO.
5/8 inch	\$17.00 to \$27.00	\$17.26 to \$25.33	\$7.00	\$16.98	\$13.88	\$9.90	\$11.00
¾ Inch	N/A	N/A	\$10.50	\$23.19	\$13.88	\$9.90	\$11.00

**Q. WHAT IS THE MONTHLY BILL FOR A RRUI CUSTOMER, A SUBSIDIARY OF LIBERTY WATER, AND LPSCO, AT THE AVERAGE USAGE OF A 5/8 AND 3/4 INCH LPSCO CUSTOMER?**

A. Below is a comparison of the monthly bill for RRUI and the monthly bills proposed by LPSCO, Staff, and RUCO at an average monthly usage:

Table 6

	RRUI Average Usage (gals)	RRUI	LPSCO Average Usage (gals)	Proposed LPSCO	Proposed Staff	Proposed RUCO.
5/8 inch	7,794	\$34.22	4,277	\$19.37	\$22.45	\$24.62
¾ Inch	4,316	\$36.05	8,827	\$28.24	\$22.45	\$24.62

The Company proposed customer monthly bills at the average LPSCO usage are significantly less than RRUI. Even, the Company's proposed bills are less than RRUI's but, they are more comparable than either Staff or RUCO.<sup>28</sup>

**Q. SO WHAT DOES THIS TELL US ABOUT THE STAFF AND RUCO RECOMMENDED WATER RATE DESIGNS IN THIS CASE?**

A. To borrow and paraphrase that old Sesame Street adage, some of these things just don't belong. If we look at the percentage recovery from the monthly minimums as well as other comparisons to other recent water utility rate cases, it is clear that the Company's recommended rate design is the only one that is reasonably comparable to rate designs adopted in recent rate cases. In short, the Commission seems to be moving toward rate designs that create more revenue stability for water utility companies, however, the Staff and RUCO's rate designs deviate from that trend.

**Q. COULD THE RATE DESIGNS IN THOSE CASES YOU REFERENCED BE COINCIDENCE AND NOT REFLECTIVE OF A TREND?**

A. I hope not. But it doesn't really matter. If Staff and/or RUCO's rate design is approved, LPSCO will have to turn and around and file another rate case. There is no way they can continue to fund conservation in their CC&N to the tune of hundreds of thousands of dollars annually. If one of those rate designs is approved,

<sup>28</sup> RRUI's service territory is located in Santa Cruz County, Arizona, near the City of Nogales.

1 the question won't be whether the Company will under recover, but how much  
2 revenue it will lose.

3 **Q. THAT SEEMS A BIT DRASTIC DOESN'T IT, MR. BOURASSA?**

4 A. Not at all. In the simplest terms, if the Commission authorizes \$20 in revenue  
5 requirement, but the utility can only collect \$17, the utility is immediately under  
6 recovering its cost of service. At that point it has two choices – lose money or seek  
7 a rate increase. Or, the Commission can reject the rate designs proffered by Staff  
8 and RUCO in this case. Doing so would balance the promotion of conservation  
9 with the utility's need to recover its revenue requirement now, in this case, so the  
10 Company is not forced to turn around and come back in again in a third attempt to  
11 get it right.

12 **Q. FAIR ENOUGH. SO, TO BALANCE REVENUE STABILITY WITH**  
13 **CONSERVATION, WHAT IS THE PREFERRED ALLOCATION OF**  
14 **REVENUE RECOVERY BETWEEN THE MONTHLY MINIMUMS AND**  
15 **THE COMMODITY RATES?**

16 A. Ideally, no less than half the utility's revenue should come from the monthly  
17 minimums. The cost of service for water systems is 80 percent or more fixed in  
18 nature. In other words, the costs don't change with the volume of water that is  
19 sold. So, even at 50 percent recovery from the monthly minimums, a large portion  
20 of the fixed costs must be recovered through the commodity charges. Under  
21 inverted tier rates, the commodity charges increase as volume increases so when  
22 conservation takes place, the Company loses a greater amount of revenue.



1 Q. THEN WHY AREN'T YOU RECOMMENDING AT LEAST A 50-50 SPLIT  
2 BETWEEN THE MONTHLY MINIMUM AND THE COMMODITY  
3 RATES IN THIS CASE?

4 A. For the same reason Rome wasn't built in a day. I will explain.

5 The current rate design was intended to recover approximately 31 percent of  
6 the Company's revenues from the monthly minimums. If I go from there to  
7 50 percent or more, there will be a much greater impact on the lower water users  
8 which is counter to the principle of gradualism. The Company proposed rate  
9 design recovers approximately 41 percent from the monthly minimums, which is  
10 approximately half way between the current 31 percent and the goal of 50 percent.  
11 Unfortunately, the unavoidable truth is that it takes time to fix these broken rate  
12 designs that the Commission has been approving, generally by letting Staff have its  
13 way.

14 Q. WAIT A MINUTE MR. BOURASSA, ARE YOU SAYING THAT  
15 CONSERVATION ORIENTED RATE DESIGNS NEED TO BE  
16 ELIMINATED?

17 A. Absolutely not. The desire to promote conservation is not the problem, nor is the  
18 use of inverted tier rates per se.

19 Q. THEN WHAT IS THE PROBLEM, MR. BOURASSA?

20 A. The problem, very simply, is that Staff, and RUCO to a lesser degree, have  
21 consistently placed too much revenue recovery on the upper tiers. Then when  
22 customers use less water to save money, which is the point of the rate design, the  
23 Company does not have a reasonable chance to earn its authorized revenues.  
24 This leads to more rate cases.

1 **Q. BUT IF THE COMPANY SELLS LESS WATER, DOESN'T IT INCUR**  
2 **LOWER EXPENSES?**

3 A. Its plant didn't go away, nor did its employees who still have to operate the same  
4 facilities to serve the same customers. It would have lower power costs to pump  
5 less water, savings a bilaterally functioning purchased power adjuster mechanism  
6 like the Commission used to approve would return to customers. In any event,  
7 until water use stops declining as a result of Commission approved rate designs,  
8 utilities will face revenue instability.

9 **Q. WHAT ABOUT THE PROPOSED DECLINING USAGE ADJUSTMENT**  
10 **SUPPORTED BY THE COMPANY AND STAFF? DOES THAT REMOVE**  
11 **THE RISK AND IMPACT OF REVENUE LOSS?**

12 A. No. For starters, the declining usage adjustment is only approximately \$59,000,  
13 which is about 10 percent of the total revenue loss of \$590,000 that occurred.  
14 I purposely proposed a very conservative adjustment to reflect that the estimate is  
15 not strictly known and measureable.<sup>29</sup> Additionally, the declining usage  
16 adjustment is not an adjuster that would allow the Company to recover revenue  
17 loss beyond \$59,000. Revenue loss is expected to occur under the Company's  
18 proposed rate design, but to a lesser extent than under the Staff and/or RUCO rate  
19 designs.

20 **Q. OKAY, SO THIS IS A SIGNIFICANT ISSUE. WHAT SHOULD THE**  
21 **COMMISSION DO IN THIS CASE?**

22 A. The Commission should continue what I see as a recent trend in the  
23 implementation of conservation oriented rate designs and make sure that it does not  
24  
25

26 <sup>29</sup> See Rebuttal Testimony of Christopher D. Krygier at 4:14-22.

1 make the utility fund conservation through lost revenues. That's what LPSCO has  
2 been doing, to the tune of \$600,000 annually under the current rates.

3 **Q. AND HOW CAN THE COMMISSION DO THAT IN THIS RATE CASE,**  
4 **MR. BOURASSA?**

5 A. Reject Staff's and RUCO's recommended rate design. As seen in the last table,  
6 Staff's rate design recovers only 32 percent of the revenues from the monthly  
7 minimums. This not only flies in the face of the recent trend to better balance  
8 conservation with rate stability, it utterly reverses it. LPSCO will be lucky if it  
9 only suffers the same level of revenue loss (roughly \$600,000) that it experienced  
10 since the last rate case if the Commission adopts Staff's rate design.

11 **Q. IS THE MISALLOCATION BETWEEN MONTHLY MINIMUMS AND**  
12 **COMMODITY RATES THE ONLY THING YOU FIND TROUBLING**  
13 **WITH STAFF'S RATE DESIGN?**

14 A. Unfortunately, no, this is only one of the flaws in Staff's recommended rate design  
15 in this rate case.

16 **Q. DID YOU ADDRESS THESE FLAWS IN STAFF'S RATE DESIGN IN**  
17 **YOUR REBUTTAL TESTIMONY?**

18 A. I did, and I also included six pages of testimony concerning the necessary balance  
19 between revenue stability and conservation. Both parties ignored this testimony.  
20 Staff has not modified its rate design and still recommends rates with too little  
21 revenue recovery rate from the monthly minimums. Further, Staff still  
22 recommends a reduction in the first tier commodity rate for the 3/4 inch and  
23 smaller residential customers. As a consequence of Staff's low monthly minimums  
24 and lower 1<sup>st</sup> tier and 2<sup>nd</sup> tier commodity rates, customers at average usage will see  
25 a rate decrease.

26

1 Q. HOW MANY CUSTOMERS ARE LIKELY TO EXPERIENCE A RATE  
2 DECREASE?

3 A. 68 percent of the test year billings for the ¾ inch residential customers were at or  
4 below the average usage. That means the majority of the ¾ inch residential  
5 customers will see a rate decrease.

6 To illustrate the reduction in rates for the ¾ inch residential customer,  
7 one only need look at the impact on the average ¾ inch residential customer.  
8 The current bill for a ¾ inch metered residential customer at the average monthly  
9 usage of 8,827 gallons is \$24.33. The bill under the Staff proposed rates will be  
10 \$22.45, a \$1.88 decrease or 7.74 percent under the current bill. In fact, a ¾ inch  
11 customer using up to 12,000 gallons per month will see a rate decrease. Below is a  
12 rate comparison for the ¾ inch residential customers to illustrate this:

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**Table 7**  
**¾ Inch Residential Customer**

	Present	Staff Proposed	Dollar	Percent
<u>Usage</u>	<u>Bill</u>	<u>Bill</u>	<u>Increase</u>	<u>Increase</u>
=	<u>\$10.20</u>	<u>\$10.00</u>	<u>\$(0.20)</u>	<u>-1.96%</u>
1,000	11.20	10.75	(0.45)	-4.02%
2,000	12.20	11.50	(0.70)	-5.74%
3,000	13.20	12.25	(0.95)	-7.20%
4,000	15.11	14.00	(1.11)	-7.35%
5,000	17.02	15.75	(1.27)	-7.46%
6,000	18.93	17.50	(1.43)	-7.55%
7,000	20.84	19.25	(1.59)	-7.63%
8,000	22.75	21.00	(1.75)	-7.69%
9,000	24.66	22.75	(1.91)	-7.75%
10,000	27.69	26.30	(1.39)	-5.02%
12,000	33.75	33.40	(0.35)	-1.04%
14,000	39.81	40.50	0.69	1.73%
16,000	45.87	47.60	1.73	3.77%
18,000	51.93	54.70	2.77	5.33%
20,000	57.99	61.80	3.81	6.57%
25,000	73.14	81.80	8.66	11.84%
30,000	88.29	101.80	13.51	15.30%
35,000	103.44	121.80	18.36	17.75%
40,000	118.59	141.80	23.21	19.57%
45,000	133.74	161.80	28.06	20.98%
50,000	148.89	181.80	32.91	22.10%
60,000	179.19	221.80	42.61	23.78%
70,000	209.49	261.80	52.31	24.97%
80,000	239.79	301.80	62.01	25.86%
90,000	270.09	341.80	71.71	26.55%
100,000	300.39	381.80	81.41	27.10%

A reduction in rates sends the wrong price signal particularly when Staff is recommending an overall rate increase of 9.15 percent.<sup>30</sup> On the one hand the cost of service is increasing as evidenced by the overall revenue increase, but a significant number of customers will see rate decreases. Apparently, water service

<sup>30</sup> See Staff Surrebuttal Schedule DWC-W1.

1 is only more costly and water scarce for a small minority of the Company's  
2 customers.

3 **Q. ARE THE REVENUE DECREASES STAFF RECOMMENDS LIMITED TO**  
4 **THE SMALLER METERED CUSTOMERS?**

5 A. No, some customers with other meter sizes and in other classes will also experience  
6 lower rates under Staff's recommended rate design. I have included in Rejoinder  
7 **Exhibit TJB-RB-RJ3** schedules of bill comparisons at the average and median  
8 monthly usages under the Staff proposed rates. These schedules show reductions  
9 occurring for other meter size and classes. Again, reducing the bills sends the  
10 wrong conservation price signal. The underlying reason to promote conservation is  
11 that water is scarce and is a precious commodity. Yet, adoption of Staff's rate  
12 design would send the message to most of the customers that water is cheaper so  
13 use more of it.

14 Below are several examples of customer paying less under Staff's proposed  
15 rates than they currently pay (Tables 8, 9, 10 and 11. Note: amounts in bold  
16 represent customers paying less under the Staff proposed rates):

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Table 8  
1 Inch Commercial

		Present	Staff Proposed	Dollar
	<u>Usage</u>	<u>Bill</u>	<u>Bill</u>	<u>Increase</u>
	-	\$25.50	\$27.68	\$2.18
	1,000	27.41	29.43	2.02
	2,000	29.32	31.18	1.86
	3,000	31.23	32.93	1.70
	4,000	33.14	34.68	1.54
	5,000	35.05	36.43	1.38
	6,000	36.96	38.18	1.22
	7,000	38.87	39.93	1.06
	8,000	40.78	41.68	0.90
	9,000	42.69	43.43	0.74
	10,000	44.60	45.18	0.58
	12,000	48.42	48.68	0.26
	14,000	52.24	52.18	(0.06)
	16,000	56.06	55.68	(0.38)
	18,000	59.88	59.18	(0.70)
	20,000	63.70	62.68	(1.02)
	25,000	78.85	71.43	(7.42)
	30,000	94.00	91.43	(2.57)
	35,000	109.15	111.43	2.28
	40,000	124.30	131.43	7.13
	45,000	139.45	151.43	11.98
	50,000	154.60	171.43	16.83
	60,000	184.90	211.43	26.53
	70,000	215.20	251.43	36.23
	80,000	245.50	291.43	45.93
	90,000	275.80	331.43	55.63

Table 9  
1 ½ Inch Residential

<u>Usage</u>	<u>Present Bill</u>	<u>Staff Proposed Bill</u>	<u>Dollar Increase</u>
-	\$51.00	\$50.00	\$(1.00)
1,000	52.91	51.75	(1.16)
2,000	54.82	53.50	(1.32)
3,000	56.73	55.25	(1.48)
4,000	58.64	57.00	(1.64)
5,000	60.55	58.75	(1.80)
6,000	62.46	60.50	(1.96)
7,000	64.37	62.25	(2.12)
8,000	66.28	64.00	(2.28)
9,000	68.19	65.75	(2.44)
10,000	70.10	67.50	(2.60)
12,000	73.92	71.00	(2.92)
14,000	77.74	74.50	(3.24)
16,000	81.56	78.00	(3.56)
18,000	85.38	81.50	(3.88)
20,000	89.20	85.00	(4.20)
25,000	98.75	93.75	(5.00)
30,000	108.30	102.50	(5.80)
35,000	117.85	111.25	(6.60)
40,000	127.40	126.75	(0.65)
45,000	142.55	146.75	4.20
50,000	157.70	166.75	9.05
60,000	188.00	206.75	18.75
70,000	218.30	246.75	28.45
80,000	248.60	286.75	38.15
90,000	278.90	326.75	47.85
100,000	309.20	366.75	57.55



Table 10  
2 Inch Residential

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Staff Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>
-	\$81.60	\$80.00	\$(1.60)
1,000	83.51	81.75	(1.76)
2,000	85.42	83.50	(1.92)
3,000	87.33	85.25	(2.08)
4,000	89.24	87.00	(2.24)
5,000	91.15	88.75	(2.40)
6,000	93.06	90.50	(2.56)
7,000	94.97	92.25	(2.72)
8,000	96.88	94.00	(2.88)
9,000	98.79	95.75	(3.04)
10,000	100.70	97.50	(3.20)
12,000	104.52	101.00	(3.52)
14,000	108.34	104.50	(3.84)
16,000	112.16	108.00	(4.16)
18,000	115.98	111.50	(4.48)
20,000	119.80	115.00	(4.80)
25,000	129.35	123.75	(5.60)
30,000	138.90	132.50	(6.40)
35,000	148.45	141.25	(7.20)
40,000	158.00	150.00	(8.00)
45,000	167.55	158.75	(8.80)
50,000	177.10	167.50	(9.60)
60,000	196.20	203.00	6.80
70,000	226.50	243.00	16.50
80,000	256.80	283.00	26.20
90,000	287.10	323.00	35.90
100,000	317.40	363.00	45.60

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Table 11  
4 Inch Residential

<u>Usage</u>	<u>Present</u> <u>Bill</u> \$	<u>Proposed</u> <u>Bill</u> \$	<u>Dollar</u> <u>Increase</u> \$
-	255.00	250.00	(5.00)
1,000	256.91	251.75	(5.16)
2,000	258.82	253.50	(5.32)
3,000	260.73	255.25	(5.48)
4,000	262.64	257.00	(5.64)
5,000	264.55	258.75	(5.80)
6,000	266.46	260.50	(5.96)
7,000	268.37	262.25	(6.12)
8,000	270.28	264.00	(6.28)
9,000	272.19	265.75	(6.44)
10,000	274.10	267.50	(6.60)
12,000	277.92	271.00	(6.92)
14,000	281.74	274.50	(7.24)
16,000	285.56	278.00	(7.56)
18,000	289.38	281.50	(7.88)
20,000	293.20	285.00	(8.20)
25,000	302.75	293.75	(9.00)
30,000	312.30	302.50	(9.80)
35,000	321.85	311.25	(10.60)
40,000	331.40	320.00	(11.40)
45,000	340.95	328.75	(12.20)
50,000	350.50	337.50	(13.00)
60,000	369.60	355.00	(14.60)
70,000	388.70	372.50	(16.20)
80,000	407.80	390.00	(17.80)
90,000	426.90	407.50	(19.40)
100,000	446.00	425.00	(21.00)

1 As can be readily seen, decreases in the cost of water utility service are not limited  
2 to a few small users. Under Staff's fundamentally flawed rate design in this case,  
3 several larger users will share in this savings windfall. For example, 2 inch  
4 metered customers will see a rate decrease up to 56,000 gallons of usage.  
5 Nearly 72 percent of the 2 inch commercial class billings were below 56,000  
6 gallons of usage.

7 **Q. DOES THE STAFF RATE DESIGN PROVIDE A GREATER SUBSIDY TO**  
8 **THE SMALL RESIDENTIAL CUSTOMERS?**

9 A. Yes. You can't reduce rates for the 3/4 inch residential metered customer while  
10 proposing an overall increase in water revenues without a subsidy. Inverted tier  
11 rate designs are not cost of service based rate designs in that a greater amount is  
12 charged the more water that is used. But, the actual cost of water is less the more  
13 the customer uses. In my experience, cost of service studies show the break-even  
14 point for the small residential customers is well beyond the average usage, as my  
15 cost of service study in LPSCO's prior rate case demonstrated.<sup>31</sup> In fact, even  
16 under the Company's proposed rates in that case, the break-even point for a 5/8 and  
17 3/4 inch residential customer was over 20,000 gallons. That said, an unavoidable  
18 consequent of inverted tier rate designs is the lower water users receive a subsidy  
19 from the higher water users. However, a balanced inverted tier rate design should  
20 try to minimize the subsidies. There is no real need for subsidies particularly when  
21 the Company has a low income tariff. The Staff rate design increases the subsidy  
22 as evidenced by Staff's reduction in rates at the average usage for the 3/4 inch  
23 residential customers.  
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26 <sup>31</sup> See LPSCO Final Schedule G-9, pages 1 and 2 in Docket No. SW-01428-09-0103.

1 **Q. WHAT ABOUT THE RUCO RATE DESIGN?**

2 A. RUCO's rate design increases the subsidy to the small residential customers too.  
3 The increase to the average  $\frac{3}{4}$  inch residential customer under the RUCO proposed  
4 rates is only 1.2 percent. Yet, RUCO is proposing an overall increase of  
5 9.53 percent increase in water revenues. Included in Rejoinder **Exhibit TJB-RB-**  
6 **RJ3** are schedules of bill comparisons at the average and median monthly usages  
7 under the RUCO proposed rates.

8 **Q. WHY SHOULD HIGH LEVELS OF SUBSIDY BE AVOIDED?**

9 A. Because one of the main principles of rate design is to avoid inequities as much as  
10 possible; particularly for inverted tier rate designs.<sup>32</sup> Subsidies necessarily require  
11 that other customers pay more than they otherwise would. Rate designs that  
12 provide excessive levels of subsidies create greater inequities between customers  
13 and customer classes. Fairness should mean that inequities be minimized as much  
14 as possible. In addition, because excessive subsidies translate to other customers  
15 paying more, potentially conserving more as a result, revenues are less stable,  
16 which means more frequent and greater rate increases in the future.

17 **Q. IS THERE ANY OTHER EVIDENCE THAT THE STAFF AND RUCO**  
18 **RATE DESIGNS ARE PROVIDING GREATER SUBSIDIES?**

19 A. Yes. A comparison of the required single tier commodity rate necessary to  
20 generate the revenue requirements for each party with the proposed commodity  
21 rates illustrates the greater subsidies occurring under the Staff and RUCO rate  
22 designs. A single tier commodity shows how much each customer should pay to  
23 generate the commodity revenues that are not being recovered from the monthly  
24 minimum. It therefore serves as a benchmark for identifying the discounts and

25 <sup>32</sup> Principles of Water Rates, Fees, and Charges. AWWA Manual M-1 Sixth Edition, American Water  
26 Works Association, p.101.

premiums that are provided under a multi-tier design. The principles of rate design, include revenue stability and minimizing subsidies (avoiding inequities) between customer classes.<sup>33</sup> Below is a table that compares the required single tier commodity rate against the proposed commodity rates for each party.

Table 12

LPSCO Proposed					
Required Single Tier					
<u>% Recovery From Mins.</u>	<u>Commodity Rate</u>		<u>Proposed Commodity Rate</u>	<u>Premium (Discount)</u>	
40.50%	\$2.2715	Tier 1	\$ 1.0000	-55.98%	
		Tier 2	\$ 1.9500	-14.15%	
		Tier 3	\$ 2.9500	29.87%	
		Tier 4	\$ 3.3600	47.92%	
Staff Proposed					
Required Single Tier					
<u>% Recovery From Mins.</u>	<u>Commodity Rate</u>		<u>Proposed Commodity Rate</u>	<u>Premium (Discount)</u>	
32.17%	\$2.4625	Tier 1	\$ 0.7500	-69.54%	
		Tier 2	\$ 1.7500	-28.93%	
		Tier 3	\$ 3.5500	44.16%	
		Tier 4	\$ 4.0000	62.44%	
RUCO Proposed					
Required Single Tier					
<u>% Recovery From Mins.</u>	<u>Commodity Rate</u>		<u>Proposed Commodity Rate</u>	<u>Premium (Discount)</u>	
35.62%	\$2.3445	Tier 1	\$ 0.8500	-63.74%	
		Tier 2	\$ 1.9000	-18.96%	
		Tier 3	\$ 3.0800	31.37%	
		Tier 4	\$ 3.3830	44.30%	

<sup>33</sup> Principles of Water Rates, Fees, and Charges. AWWA Manual M-1 Sixth Edition, American Water Works Association, p.101.

1 Both the Staff and RUCO proposed commodity rates are more heavily  
2 discounted at the lower commodity rates compared to the required single tier  
3 commodity rate, and both have greater premiums over the single tier commodity  
4 rate at the higher commodity rates. For example, Staff's rate design provides a  
5 nearly 70 percent discount off its required single commodity rate for its lowest  
6 commodity rate. RUCO's rate design provides a nearly 64 percent discount for its  
7 lowest commodity rate. Both RUCO's and Staff's second tier commodity rates are  
8 also more heavily discounted than the Company's second tier commodity rate.  
9 To make up the difference in unrecovered commodity revenues at the lower  
10 commodity rates, the Staff and RUCO designs require higher premiums on the  
11 highest commodity rates.

12 **Q. THANK YOU. DIDN'T YOU ALSO ADDRESS BILLING CROSS-OVERS**  
13 **IN YOUR REBUTTAL TESTIMONY?**

14 A. Yes. I also pointed out that the Staff rate design resulted in billing cross-over.<sup>34</sup>  
15 This issue still exists in the Staff rate design and Staff has not explained why these  
16 are acceptable.

17 **Q. AS A REFRESHER, WHAT EXACTLY IS A BILLING CROSS-OVER,**  
18 **MR. BOURASSA?**

19 A. A billing cross-over exists when a customer on a larger meter size pays less than  
20 customers on a smaller meter size at the same level of water use.

21 **Q. PLEASE PROVIDE SPECIFIC EXAMPLES OF BILLING CROSS-OVER.**

22 A. Below is a summary of the customer bills under the Staff proposed rates for a ¾  
23 inch residential customer compared to a 1 inch residential customer (Table 13), a  
24  
25

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26 <sup>34</sup> Bourassa Rb. at 41-42.

1 1 ½ inch residential customer (Table 14), and a 2 inch residential customer  
 2 (Table 15) (Note: the cross-over in billings is in bold font):  
 3  
 4

5 Table 13

Usage	Staff Proposed <u>34/ Inch</u>	Staff Proposed <u>1 Inch</u>	Difference
	Residential Bill	Residential Bill	
-	\$9.90	\$25.00	\$15.10
1,000	10.65	25.75	15.10
2,000	11.40	26.50	15.10
3,000	12.15	27.25	15.10
4,000	13.90	29.00	15.10
5,000	15.65	30.75	15.10
6,000	17.40	32.50	15.10
7,000	19.15	34.25	15.10
8,000	20.90	36.00	15.10
9,000	22.65	37.75	15.10
10,000	26.20	39.50	13.30
12,000	33.30	43.00	9.70
14,000	40.40	46.50	6.10
16,000	47.50	50.00	2.50
18,000	54.60	53.50	<b>(1.10)</b>
20,000	61.70	57.00	<b>(4.70)</b>
25,000	81.70	74.75	<b>(6.95)</b>
30,000	101.70	92.50	<b>(9.20)</b>
35,000	121.70	110.25	<b>(11.45)</b>
40,000	141.70	129.35	<b>(12.35)</b>
45,000	161.70	149.35	<b>(12.35)</b>
50,000	181.70	169.35	<b>(12.35)</b>
60,000	221.70	209.35	<b>(12.35)</b>
70,000	261.70	249.35	<b>(12.35)</b>
80,000	301.70	289.35	<b>(12.35)</b>
90,000	341.70	329.35	<b>(12.35)</b>
100,000	381.70	369.35	<b>(12.35)</b>

Table 14

		Staff Proposed <u>3/4 Inch</u>	Staff Proposed <u>1.5 Inch</u>	
	<u>Usage</u>	<u>Residential Bill</u>	<u>Residential Bill</u>	<u>Difference</u>
	-	\$9.90	\$50.00	\$40.10
	1,000	10.65	51.75	41.10
	2,000	11.40	53.50	42.10
	3,000	12.15	55.25	43.10
	4,000	13.90	57.00	43.10
	5,000	15.65	58.75	43.10
	6,000	17.40	60.50	43.10
	7,000	19.15	62.25	43.10
	8,000	20.90	64.00	43.10
	9,000	22.65	65.75	43.10
	10,000	26.20	67.50	41.30
	12,000	33.30	71.00	37.70
	14,000	40.40	74.50	34.10
	16,000	47.50	78.00	30.50
	18,000	54.60	81.50	26.90
	20,000	61.70	85.00	23.30
	25,000	81.70	93.75	12.05
	30,000	101.70	102.50	0.80
	35,000	121.70	111.25	(10.45)
	40,000	141.70	126.75	(14.95)
	45,000	161.70	146.75	(14.95)
	50,000	181.70	166.75	(14.95)
	60,000	221.70	206.75	(14.95)
	70,000	261.70	246.75	(14.95)
	80,000	301.70	286.75	(14.95)
	90,000	341.70	326.75	(14.95)
	100,000	381.70	366.75	(14.95)



Table 15

	Staff Proposed <u>3/4 Inch</u>	Staff Proposed <u>2 Inch</u>	
<u>Usage</u>	<u>Residential Bill</u>	<u>Residential Bill</u>	<u>Difference</u>
-	\$9.90	\$80.00	\$70.10
1,000	10.65	81.75	71.10
2,000	11.40	83.50	72.10
3,000	12.15	85.25	73.10
4,000	13.90	87.00	73.10
5,000	15.65	88.75	73.10
6,000	17.40	90.50	73.10
7,000	19.15	92.25	73.10
8,000	20.90	94.00	73.10
9,000	22.65	95.75	73.10
10,000	26.20	97.50	71.30
12,000	33.30	101.00	67.70
14,000	40.40	104.50	64.10
16,000	47.50	108.00	60.50
18,000	54.60	111.50	56.90
20,000	61.70	115.00	53.30
25,000	81.70	123.75	42.05
30,000	101.70	132.50	30.80
35,000	121.70	141.25	19.55
40,000	141.70	150.00	8.30
45,000	161.70	158.75	(2.95)
50,000	181.70	167.50	(14.20)
60,000	221.70	203.00	(18.70)
70,000	261.70	243.00	(18.70)
80,000	301.70	283.00	(18.70)
90,000	341.70	323.00	(18.70)
100,000	381.70	363.00	(18.70)

**Q. PLEASE SUMMARIZE TABLES 9, 10 AND 11.**

**A.** As shown in these tables, customers with smaller meter sizes will pay more for water than larger meter sizes. In certain instances, a smart customer would call LPSCO's customer service department and request a larger meter size to save

1 money!! Staff's rate design sends the price signal to customers that larger meter  
2 sizes using large amounts of water will result in lower bills. Again, this is the  
3 wrong message to send to customers and is reflective of the flawed nature of  
4 Staff's recommendation in this case.

5 **Q. WHAT ABOUT RUCO'S RATE DESIGN?**

6 A. RUCO has modified its rate design and addressed the problems of billing cross-  
7 over and customers paying less under RUCO's proposed rates than they currently  
8 pay. However, RUCO still lowers the 1<sup>st</sup> tier commodity rate for the 1 inch and  
9 smaller residential customers from \$1.00 to \$0.85 which sends the wrong pricing  
10 signal for the reasons discussed earlier. More importantly, RUCO went the  
11 opposite direction in terms of revenue stability. RUCO's surrebuttal rate design  
12 recovers less from the monthly minimums (at 35.7 percent) than the rate design it  
13 proposed in its direct filing (at 38.6 percent). RUCO's fixes to its rate design in  
14 order to eliminate billing cross-overs and customers paying less under proposed  
15 rates, resulted in less revenue stability. This is why I have testified that under  
16 either rate design the Company will under earn, again by hundreds of thousands of  
17 dollars.

18 **B. Wastewater Division**

19 **Q. WHAT ARE THE COMPANY'S REJOINDER PROPOSED RATES FOR**  
20 **WASTEWATER SERVICE?**

21 A. The Company's proposed rates are:

22 **MONTHLY SERVICE CHARGES**

23 Monthly Residential Service	\$ 41.00
24 Multi-Unit Housing - Monthly Per Unit	\$ 38.05
25 Commercial:	
26 Small Commercial - Monthly Service	\$ 69.33

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Measured Service:

Regular Domestic:

Monthly Service Charge	\$ 38.81
Rate Per 1,000 Gallons of Water	\$ 3.39

Restaurants, Motels, Grocery Stores &

Dry Cleaning Establishments:

Monthly Service Charge	\$ 38.88
Rate Per 1,000 Gallons of Water	\$ 4.52

Wigwam Resort:

Monthly Rate - Per Room	\$ 38.05
Main Hotel Facilities - Per Month	\$1,507.11

Schools - Monthly Service Rates:

Elementary Schools	\$1,024.83
Middle Schools	\$1,205.69
High Schools	\$1,205.69
Community College	\$1,868.82

Effluent	Market Rate
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**Q. WHAT WILL BE THE 3/4 INCH RESIDENTIAL CUSTOMER MONTHLY BILL UNDER THE NEW RATES?**

**A.** As shown on Schedule H-2, page 1, the average monthly bill under proposed rates for a residential customer is \$41.00 – a \$2.01 increase over the present monthly bill or a 5.16 percent increase

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**C. Miscellaneous Charges**

**Q. IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND STAFF ON THE COMPANY'S PROPOSED METER AND SERVICE LINE INSTALLATION CHARGES?**

**A. No. The Company and Staff are in agreement.**

**Q. IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND STAFF ON THE COMPANY'S PROPOSED MISCELLANEOUS CHARGES?**

**A. No.**

**Q. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY?**

**A. Yes.**

**EXHIBIT**  
**TJB-RB-RJ1**

Litchfield Park Service Company - Water Division dba Liberty Utilities  
 Company Proposed Rates  
 Revenue Breakdown Summary

Page1

		Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Commodity Fourth Tier	Commodity Fifth Tier	Total
5/8 Inch Residential	\$	9,660	\$ 1,551	\$ 2,106	\$ 561	\$ 528	\$ -	\$ 14,405
3/4 Inch Residential		1,572,160	320,609	915,584	407,767	238,547	-	3,454,666
3/4 Inch Residential - Low Income		4,247	830	2,089	589	274	-	8,030
1 Inch Residential		2,255,011	332,673	908,142	272,556	328,813	-	4,097,195
1 Inch Residential - Low Income		9,547	1,498	2,734	100	-	-	13,879
1.5 Inch Residential		21,653	16,910	13,746	-	-	-	52,309
2 Inch Residential		2,665	1,517	1,704	-	-	-	5,886
4 Inch Residential		-	-	-	-	-	-	-

5/8 Inch Commercial	\$	333.12	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 333
3/4 Inch Commercial		4,997	2,504	3,004	-	-	-	10,505
1 Inch Commercial		18,322	8,184	7,291	-	-	-	33,796
1.5 Inch Commercial		44,971	28,152	64,548	-	-	-	137,671
2 Inch Commercial		339,782	165,461	307,527	-	-	-	812,770
4 Inch Commercial		29,148	25,200	218,000	-	-	-	272,348
8 Inch Commercial		13,325	702	-	-	-	-	14,027
10 Inch Commercial		19,154	18,032	5,016	-	-	-	42,203

5/8 Inch Irrigation	\$	500	\$ 302	\$ 269	\$ -	\$ -	\$ -	\$ 1,071
3/4 Inch Irrigation		19,821	14,202	33,358	-	-	-	67,381
1 Inch Irrigation		96,188	60,793	178,554	-	-	-	335,536
1.5 Inch Irrigation		79,949	64,802	239,213	-	-	-	383,964
2 Inch Irrigation		333,120	277,447	1,406,453	-	-	-	2,017,020
4 Inch Irrigation		33,312	22,255	111,122	-	-	-	166,688

1 Inch MF	\$	2,082	\$ 143	\$ 39	\$ -	\$ -	\$ -	\$ 2,264
1.5 Inch MF		13,325	7,106	33,654	-	-	-	54,084
2 Inch MF		149,238	86,908	139,743	-	-	-	375,889
4 Inch MF		12,492	8,057	33,728	-	-	-	54,277

5/8 Inch Fire	\$	38,975	\$ 193	\$ -	\$ -	\$ -	\$ -	\$ 39,168
3/4 Inch Fire		3,997	24	-	-	-	-	4,021
1 Inch Fire		374	-	-	-	-	-	374
Hydrant		-	75,439	-	-	-	-	75,439
8 Inch Bulk Water - GoodYear		13,800	128,621	-	-	-	-	142,421
4 Inch VUI		4,164	-	-	-	-	-	4,164

TOTALS	\$	5,146,313	\$ 1,670,115	\$ 4,627,622	\$ 681,573	\$ 568,161	\$ -	\$ 12,693,785
Percent of Total		40.54%	13.16%	36.46%	5.37%	4.48%	0.00%	100.00%
Cummulative %		40.54%	53.70%	90.15%	95.52%	100.00%	100.00%	

100.00%

**Alternative View**

Category	Revenue	%	Cummulative
Minimum	\$ 5,146,313	40.54%	40.54%
Lowest Cost Commodity rate	\$ 657,161	5.18%	45.72%
2nd Lowest Cost Commodity rate	\$ 2,768,169	21.81%	67.53%
2nd Highest Cost Commodity rate	\$ 681,573	5.37%	72.90%
Highest Cost Commodity rate	\$ 3,440,569	27.10%	100.00%
	\$ 12,693,785	100.00%	

Litchfield Park Service Company - Water Division  
Staff Proposed Rates  
Revenue Breakdown Summary

Page 2

		Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Commodity Fourth Tier	Commodity Fifth Tier	Total
5/8 Inch	Residential	\$ 6,890	\$ 1,163	\$ 1,720	\$ 1,019	\$ 628	\$ -	\$ 11,420
3/4 Inch	Residential	1,121,353	240,457	704,705	727,989	283,984	-	\$ 3,078,489
3/4 Inch	Residential - Low Income	3,029	623	1,651	1,162	326	-	\$ 6,792
1 Inch	Residential	1,806,900	156,276	1,032,533	446,146	258,312	-	\$ 3,700,167
1 Inch	Residential - Low Income	7,650	713	3,412	121	-	-	\$ 11,895
1.5 Inch	Residential	15,600	14,473	17,972	-	-	-	\$ 48,045
2 Inch	Residential	1,920	1,248	2,288	-	-	-	\$ 5,456
4 Inch	Residential	-	-	-	-	-	-	\$ -
5/8 Inch	Commercial	\$ 237.60	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 238
3/4 Inch	Commercial	3,564	2,247	3,576	-	-	-	\$ 9,387
1 Inch	Commercial	14,615	8,053	7,060	-	-	-	\$ 29,728
1.5 Inch	Commercial	32,400	23,944	79,863	-	-	-	\$ 136,207
2 Inch	Commercial	244,800	136,133	394,349	-	-	-	\$ 775,282
4 Inch	Commercial	21,000	18,008	270,056	-	-	-	\$ 309,064
8 Inch	Commercial	9,600	630	-	-	-	-	\$ 10,230
10 Inch	Commercial	13,800	11,200	17,360	-	-	-	\$ 42,360
5/8 Inch	Irrigation	\$ 356	\$ 271	\$ 320	\$ -	\$ -	\$ -	\$ 948
3/4 Inch	Irrigation	14,137	12,746	39,711	-	-	-	\$ 66,594
1 Inch	Irrigation	76,729	63,125	192,982	-	-	-	\$ 332,836
1.5 Inch	Irrigation	57,600	54,891	292,242	-	-	-	\$ 404,732
2 Inch	Irrigation	240,000	220,444	1,739,599	-	-	-	\$ 2,200,043
4 Inch	Irrigation	24,000	16,468	140,298	-	-	-	\$ 180,766
1 Inch	MF	\$ 1,661	\$ 285	\$ -	\$ -	\$ -	\$ -	\$ 1,946
1.5 Inch	MF	9,600	6,057	40,796	-	-	-	\$ 56,453
2 Inch	MF	107,520	74,461	174,437	-	-	-	\$ 356,418
4 Inch	MF	9,000	5,854	43,300	-	-	-	\$ 58,154
5/8 Inch	Fire	\$ 27,799	\$ 173	\$ -	\$ -	\$ -	\$ -	\$ 27,972
3/4 Inch	Fire	2,851	21	-	-	-	-	\$ 2,873
1 Inch	Fire	300	-	-	-	-	-	\$ 300
	Hydrant	-	82,174	-	-	-	-	\$ 82,174
8 Inch	Bulk Water - GoodYear	12,000	128,621	-	-	-	-	\$ 140,621
4 Inch VUI		3,000	-	-	-	-	-	\$ 3,000
TOTALS		\$ 3,889,913	\$ 1,280,757	\$ 5,200,232	\$ 1,176,437	\$ 543,250	\$ -	\$ 12,090,589
Percent of Total		32.17%	10.59%	43.01%	9.73%	4.49%	0.00%	100.00%
Cumulative %		32.17%	42.77%	85.78%	95.51%	100.00%	100.00%	

Alternative View

Category	Revenue	%	Cummulative
Minimum	\$ 3,889,913	32.17%	32.17%
Lowest Cost Commodity rate	\$ 399,231	3.30%	35.48%
2nd Lowest Cost Commodity rate	\$ 2,414,752	19.97%	55.45%
2nd Highest Cost Commodity rate	\$ 1,176,437	9.73%	65.18%
Highest Cost Commodity rate	\$ 4,210,255	34.82%	100.00%
	\$ 12,090,589		

Litchfield Park Service Company - Water Division  
RUCO Proposed Rates  
Revenue Breakdown Summary

Page 3

		Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Commodity Fourth Tier	Commodity Fifth Tier	Total
5/8 Inch Residential	\$	7,656	\$ 1,318	\$ 1,867	\$ 884	\$ 531	\$ -	\$ 12,257
3/4 Inch Residential		1,245,948	272,518	765,109	631,608	240,179	-	\$ 3,155,362
3/4 Inch Residential - Low Income		3,366	706	1,793	1,008	276	-	\$ 7,149
1 Inch Residential		2,005,659	282,772	513,620	964,530	245,203	-	\$ 4,011,785
1 Inch Residential - Low Income		8,492	1,273	2,038	1,118	-	-	\$ 12,921
1.5 Inch Residential		17,160	14,603	17,175	-	-	-	\$ 48,939
2 Inch Residential		2,112	1,372	1,905	-	-	-	\$ 5,388
4 Inch Residential		-	-	-	-	-	-	\$ -
5/8 Inch Commercial	\$	264.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 264
3/4 Inch Commercial		3,960	2,440	3,024	-	-	-	\$ 9,424
1 Inch Commercial		16,220	7,375	8,407	-	-	-	\$ 32,002
1.5 Inch Commercial		35,640	23,997	71,103	-	-	-	\$ 130,740
2 Inch Commercial		269,280	149,559	330,391	-	-	-	\$ 749,231
4 Inch Commercial		23,100	23,936	220,592	-	-	-	\$ 267,628
8 Inch Commercial		10,560	684	-	-	-	-	\$ 11,244
10 Inch Commercial		15,180	15,525	8,691	-	-	-	\$ 39,396
5/8 Inch Irrigation	\$	396	\$ 295	\$ 271	\$ -	\$ -	\$ -	\$ 961
3/4 Inch Irrigation		15,708	13,838	33,586	-	-	-	\$ 63,132
1 Inch Irrigation		85,156	52,979	190,914	-	-	-	\$ 329,049
1.5 Inch Irrigation		63,360	54,636	255,993	-	-	-	\$ 373,989
2 Inch Irrigation		264,000	243,306	1,464,202	-	-	-	\$ 1,971,509
4 Inch Irrigation		26,400	21,228	112,694	-	-	-	\$ 160,322
1 Inch MF	\$	1,843	\$ 122	\$ 25	\$ 22	\$ -	\$ -	\$ 2,011
1.5 Inch MF		10,560	6,099	35,352	-	-	-	\$ 52,011
2 Inch MF		118,272	81,383	146,569	-	-	-	\$ 346,224
4 Inch MF		9,900	7,680	34,263	-	-	-	\$ 51,843
5/8 Inch Fire	\$	30,888	\$ 188	\$ -	\$ -	\$ -	\$ -	\$ 31,076
3/4 Inch Fire		3,168	23	-	-	-	-	\$ 3,191
1 Inch Fire		333	-	-	-	-	-	\$ 333
1 Inch Hydrant		-	75,955	-	-	-	-	\$ 75,955
8 Inch Bulk Water - GoodYear		12,240	128,621	-	-	-	-	\$ 140,861
4 Inch VUI		3,300	-	-	-	-	-	\$ 3,300
TOTALS	\$	4,310,121	\$ 1,484,432	\$ 4,219,586	\$ 1,599,170	\$ 486,190	\$ -	\$ 12,099,498
Percent of Total		35.62%	12.27%	34.87%	13.22%	4.02%	0.00%	100.00%
Cummulative %		35.62%	47.89%	82.76%	95.98%	100.00%	100.00%	

Alternative View

Category	Revenue	%	Cummulative
Minimum	\$ 4,310,121	35.62%	35.62%
Lowest Cost Commodity rate	\$ 558,587	4.62%	40.24%
2nd Lowest Cost Commodity rate	\$ 2,005,696	16.58%	56.82%
2nd Highest Cost Commodity rate	\$ 1,599,148	13.22%	70.03%
Highest Cost Commodity rate	\$ 3,625,924	29.97%	100.00%
	\$ 12,099,477		



**EXHIBIT**  
**TJB-RB-RJ2**

Litchfield Park Service Company - Water Division dba Liberty Utilities  
 Estimate of Revenue Loss Assuming Customer Growth  
 Prior Test Year vs Current Test Year

Meter Size, Class	[1] Current TY Average No. Customers	[2] Prior Rate Case Average Bill	[3] Current rate case Average Bill	[4] Expected Revenues Revenues Based On Prior Rate Case Avg Bill	[5] Test Year Revenues Based On TY Average Bill	[6] Revenue Loss Prior TY Vs Current Test Year
5/8x3/4 Inch	58	\$ 18.00	\$ 17.06	\$ 12,475	\$ 11,822	\$ (653)
3/4 Inch	9,349	29.24	27.21	3,280,095	3,052,114	(227,981)
1 Inch	5,864	50.49	47.82	3,552,684	3,364,696	(187,988)
1.5 Inch	44	200.30	182.48	105,761	96,351	(9,409)
2 Inch	114	225.47	238.15	308,673	326,033	17,360
4 Inch	3	1,040.68	1,319.09	37,465	47,487	10,023
Subtotal	15,431			7,297,152	6,898,503	(398,649)
5/8x3/4 Inch	2	\$ 25.48	\$ 10.20	\$ 612	\$ 245	\$ (367)
3/4 Inch	31	31.04	24.54	11,392	9,005	(2,386)
1 Inch	44	58.02	53.13	30,576	28,002	(2,574)
1.5 Inch	54	226.70	183.38	146,902	118,831	(28,071)
2 Inch	253	247.52	225.19	751,969	684,132	(67,837)
4 Inch	7	1,262.73	2,889.19	106,070	242,692	136,623
8 Inch	1	-	898.80	-	10,786	10,786
10 Inch	1	1,529.17	3,021.80	18,350	36,262	17,912
Subtotal	393			1,065,870	1,129,955	64,085
5/8x3/4 Inch	3	\$ 60.99	\$ 25.16	\$ 2,196	\$ 906	\$ (1,290)
3/4 Inch	119	50.11	41.02	71,507	58,536	(12,971)
1 Inch	232	116.03	104.94	323,596	292,670	(30,926)
1.5 Inch	98	280.71	292.48	328,425	342,197	13,772
2 Inch	249	648.16	595.91	1,932,811	1,777,002	(155,809)
4 Inch	8	2,291.85	1,538.75	208,559	140,026	(68,532)
Subtotal	708			2,867,093	2,611,336	(255,756)
Total	16,532			11,230,115	10,639,794	(590,321)

Revenue Loss as Percent

-5.26%

Revenue Loss as Percent of Requested Rate Increase

35.37%

**EXHIBIT**  
**TJB-RB-RJ3**

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Customer Summary  
Staff Proposed Rates

Page 1

Line No.	Meter Size/Class	(a) Average Number of Customers at 12/31/2012	Average Consumption	Average Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8x3/4 Inch Residential	58	4,277	\$ 15.64	\$ 14.38	(1.25)	-8.02%
2	3/4 Inch Residential	9,320	8,827	24.33	22.35	(1.98)	-8.15%
3	3/4 Inch Residential - Low Income	29	7,138	19.47	16.48	(2.99)	-15.33%
4	1 Inch Residential	5,835	13,707	44.58	45.99	1.41	3.16%
5	1 Inch Residential - Low Income	24	8,161	28.89	32.53	3.64	12.61%
6	1.5 Inch Residential	26	40,907	130.15	130.38	0.23	0.18%
7	2 Inch Residential	2	53,542	183.86	177.17	(6.70)	-3.64%
8	4 Inch Residential	-	-	255.00	250.00	(5.00)	-1.96%
9	Subtotal	15,293	-	-	-	-	-
10	Commercial	2	-	\$ 10.20	\$ 9.90	(0.30)	-2.94%
11	3/4 Inch Commercial	31	6,052	21.76	20.49	(1.27)	-5.83%
12	1 Inch Commercial	44	12,065	48.54	48.79	0.25	0.51%
13	1.5 Inch Commercial	54	51,926	163.53	174.45	10.92	6.68%
14	2 Inch Commercial	253	57,587	191.59	193.35	1.76	0.92%
15	4 Inch Commercial	7	926,238	2,859.90	3,639.95	780.05	27.28%
16	8 Inch Commercial	1	30,000	898.80	852.50	(46.30)	-5.15%
17	10 Inch Commercial	1	895,000	2,882.45	3,380.00	497.55	17.26%
18	Subtotal	393	-	-	-	-	-
19	Irrigation	3	6,528	\$ 22.67	\$ 21.32	(1.34)	-5.93%
20	3/4 Inch Irrigation	119	12,057	36.65	37.88	1.22	3.34%
21	1 Inch Irrigation	232	30,391	95.18	92.99	(2.19)	-2.30%
22	1.5 Inch Irrigation	98	90,421	280.18	328.44	48.26	17.22%
23	2 Inch Irrigation	249	187,244	581.75	711.97	130.23	22.39%
24	4 Inch Irrigation	8	466,516	1,466.94	1,801.07	334.12	22.78%
25	Subtotal	708	-	-	-	-	-
26	MF	5	2,717	25.67	32.43	6.77	26.37%
27	1.5 Inch MF	16	71,146	221.77	251.33	29.56	13.33%
28	2 Inch MF	112	64,098	208.62	219.39	10.77	5.16%
29	4 Inch MF	3	393,611	1,246.04	1,509.44	263.40	21.14%
30	Subtotal	136	-	-	-	-	-
31	5/8x3/4 Inch Fire	232	35	\$ 10.27	\$ 9.96	(0.31)	-2.98%
32	3/4 Inch Fire	23	43	10.28	9.98	(0.31)	-2.98%
33	1 Inch Fire	1	-	22.95	25.00	2.05	8.93%
34	Hydrant	13	148,689	\$ 450.53	\$ 544.20	93.67	20.79%
35	Goodyear	2	3,248,000	5,373.00	5,859.20	486.20	9.05%
36	VUI	1	0	255.00	250.00	(5)	-1.96%
37	Total	16,802	-	-	-	-	-

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
 Test Year Ended December 31, 2012  
 Customer Summary  
 Staff Proposed Rates

Line No.	Meter Size, Class	Average Number of Customers at 12/31/2012	(a)	Median Bill		Proposed Increase	
				Median Consumption	Present Rates	Proposed Rates	Dollar Amount
1	5/8 Inch Residential	58	4,000	\$ 15.11	\$ 13.90	(1.21)	-8.01%
2	3/4 Inch Residential	9,320	7,000	20.84	19.15	(1.69)	-8.11%
3	3/4 Inch Residential - Low Income	29	6,000	17.62	14.79	(2.83)	-16.06%
4	1 Inch Residential	5,835	10,000	37.50	39.50	2.00	5.33%
5	1 Inch Residential - Low Income	24	8,000	28.63	32.25	3.62	12.65%
6	1.5 Inch Residential	26	34,000	115.94	109.50	(6.44)	-5.55%
7	2 Inch Residential	2	28,500	136.04	129.88	(6.16)	-4.53%
8	4 Inch Residential	-	-	255.00	250.00	(5.00)	-1.96%
9	Subtotal	15,293					
10							
11	5/8 Inch Commercial	2	-	\$ 10.20	\$ 9.90	(0.30)	-2.94%
12	3/4 Inch Commercial	31	2,000	14.02	13.40	(0.62)	-4.42%
13	1 Inch Commercial	44	4,000	33.14	34.68	1.54	4.65%
14	1.5 Inch Commercial	54	24,000	96.84	92.00	(4.84)	-5.00%
15	2 Inch Commercial	253	20,000	119.80	115.00	(4.80)	-4.01%
16	4 Inch Commercial	7	507,500	1,591.13	1,965.00	373.88	23.50%
17	8 Inch Commercial	1	30,000	898.80	852.50	(46.30)	-5.15%
18	10 Inch Commercial	1	947,000	2,989.61	3,588.00	598.39	20.02%
19	Subtotal	393					
20							
21	5/8 Inch Irrigation	3	4,000	\$ 17.84	\$ 16.90	(0.94)	-5.27%
22	3/4 Inch Irrigation	119	5,000	19.75	18.65	(1.10)	-5.57%
23	1 Inch Irrigation	232	12,000	48.42	48.68	0.26	0.54%
24	1.5 Inch Irrigation	98	47,000	148.61	154.75	6.14	4.13%
25	2 Inch Irrigation	249	115,186	363.41	423.74	60.33	16.60%
26	4 Inch Irrigation	8	163,000	566.33	587.00	20.67	3.65%
27	Subtotal	708					
28							
29	1 Inch MF	5	2,000	24.95	31.18	6.23	24.97%
30	1.5 Inch MF	16	12,000	73.92	71.00	(2.92)	-3.95%
31	2 Inch MF	112	33,000	144.63	137.75	(6.88)	-4.76%
32	4 Inch MF	3	167,000	573.97	603.00	29.03	5.06%
33	Subtotal	136					
34							
35	5/8 Inch Fire	232	-	\$ 10.20	\$ 9.90	(0.30)	-2.94%
36	3/4 Inch Fire	23	-	\$ 10.20	\$ 9.90	(0.30)	-2.94%
37	1 Inch Fire	1	-	\$ 22.95	\$ 25.00	2.05	8.93%
38	Hydrant	13	21,000	64	77	13.23	20.79%
39	8 Inch Goodyear	2	-	501.00	500.00	(1.00)	-0.20%
40	4 Inch VUI	1	0	255.00	250.00	(5)	-1.96%
41	Total	16,802					

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Litchfield Park Service Company - Water Division dba Liberty Utilities  
 Test Year Ended December 31, 2012  
 Customer Summary  
 RUCO Proposed Rates

Page 3

Line No.	Meter Size, Class	(a) Average Number of Customers at 12/31/2012	Average Consumption	Average Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8x3/4 Inch Residential	58	4,277	\$ 15.64	\$ 15.98	0.34	2.16%
2	3/4 Inch Residential	9,320	8,827	24.33	24.62	0.29	1.20%
3	3/4 Inch Residential - Low Income	29	7,138	19.47	18.20	(1.27)	-6.51%
4	1 Inch Residential	5,835	13,707	44.58	51.74	7.16	16.05%
5	1 Inch Residential - Low Income	24	8,161	28.89	33.84	4.95	17.15%
6	1.5 Inch Residential	26	40,907	130.15	144.45	14.30	10.99%
7	2 Inch Residential	2	53,542	183.86	190.53	6.67	3.63%
8	4 Inch Residential	-	-	255.00	275.00	20.00	7.84%
9	Subtotal	15,293	-	-	-	-	-
10	Commercial	2	-	\$ 10.20	\$ 11.00	0.80	7.84%
11	3/4 Inch Commercial	31	6,052	21.76	22.50	0.74	3.40%
12	1 Inch Commercial	44	12,065	48.54	53.64	5.10	10.50%
13	1.5 Inch Commercial	54	51,926	157.70	175.21	17.51	11.10%
14	2 Inch Commercial	253	57,587	177.10	183.00	5.90	3.33%
15	4 Inch Commercial	7	926,238	491.84	510.60	18.76	3.81%
16	8 Inch Commercial	1	30,000	1,078.34	1,115.60	37.26	3.46%
17	10 Inch Commercial	1	895,000	2,882.45	3,106.39	223.94	7.77%
18	Subtotal	393	-	-	-	-	-
19	Irrigation	3	6,528	\$ 22.67	\$ 23.40	0.73	3.24%
20	3/4 Inch Irrigation	119	12,057	36.65	38.44	1.79	4.88%
21	1 Inch Irrigation	232	30,391	95.18	108.32	13.14	13.80%
22	1.5 Inch Irrigation	98	90,421	280.18	311.96	31.78	11.34%
23	2 Inch Irrigation	249	187,244	581.75	642.85	61.10	10.50%
24	4 Inch Irrigation	8	466,516	1,466.94	1,593.70	126.76	8.64%
25	Subtotal	708	-	-	-	-	-
26	MF	5	2,717	25.67	33.03	7.36	28.69%
27	1.5 Inch MF	16	71,146	221.77	246.75	24.98	11.26%
28	2 Inch MF	112	64,098	208.62	226.24	17.63	8.45%
29	4 Inch MF	3	393,611	1,246.04	1,347.06	101.02	8.11%
30	Subtotal	136	-	-	-	-	-
31	Fire	232	35	\$ 10.27	\$ 11.07	0.80	7.79%
32	3/4 Inch Fire	23	43	10.28	11.08	0.80	7.78%
33	1 Inch Fire	1	-	22.95	27.75	4.80	20.92%
34	Hydrant	13	148,689	\$ 450.53	\$ 503.01	52.49	11.65%
35	Goodyear	2	3,248,000	5,373.00	5,869.20	496.20	9.24%
36	VUI	1	0	255.00	275.00	20	7.84%
37	Total	16,802	-	-	-	-	-

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Litchfield Park Service Company - Water Division dba Liberty Utilities  
 Test Year Ended December 31, 2012  
 Customer Summary  
 RUCO Proposed Rates

Line No.	Meter Size/Class	Average Number of Customers at 12/31/2012	(a)	Median Bill		Proposed Increase	
				Median Consumption	Present Rates	Proposed Rates	Dollar Amount
1	5/8 Inch Residential	58	4,000	\$ 15.11	\$ 15.45	0.34	2.25%
2	3/4 Inch Residential	9,320	7,000	20.84	21.15	0.31	1.49%
3	3/4 Inch Residential - Low Income	29	6,000	17.62	16.36	(1.26)	-7.14%
4	1 Inch Residential	5,835	10,000	37.50	41.50	4.00	10.67%
5	1 Inch Residential - Low Income	24	8,000	28.63	33.54	4.91	17.15%
6	1.5 Inch Residential	26	34,000	115.94	121.08	5.14	4.44%
7	2 Inch Residential	2	28,500	136.04	142.15	6.12	4.50%
8	4 Inch Residential	-	-	255.00	275.00	20.00	7.84%
9	Subtotal	15,293					
10							
11	5/8 Inch Commercial	2	-	\$ 10.20	\$ 11.00	0.80	7.84%
12	3/4 Inch Commercial	31	2,000	14.02	14.80	0.78	5.56%
13	1 Inch Commercial	44	4,000	33.14	38.32	5.18	15.63%
14	1.5 Inch Commercial	54	24,000	169.82	188.74	18.92	11.14%
15	2 Inch Commercial	253	20,000	184.74	192.08	7.34	3.97%
16	4 Inch Commercial	7	507,500	499.48	518.20	18.72	3.75%
17	8 Inch Commercial	1	30,000	1,085.98	1,123.20	37.22	3.43%
18	10 Inch Commercial	1	947,000	2,989.61	3,282.30	292.69	9.79%
19	Subtotal	393					
20							
21	5/8 Inch Irrigation	3	4,000	\$ 17.84	\$ 18.60	0.76	4.26%
22	3/4 Inch Irrigation	119	5,000	19.75	20.50	0.75	3.80%
23	1 Inch Irrigation	232	12,000	48.42	53.52	5.10	10.53%
24	1.5 Inch Irrigation	98	47,000	148.61	165.06	16.45	11.07%
25	2 Inch Irrigation	249	115,186	363.41	399.08	35.66	9.81%
26	4 Inch Irrigation	8	163,000	566.33	584.70	18.37	3.24%
27	Subtotal	708					
28							
29	1 Inch MF	5	2,000	24.95	32.42	7.47	29.94%
30	1.5 Inch MF	16	12,000	73.92	77.80	3.88	5.25%
31	2 Inch MF	112	33,000	144.63	150.70	6.07	4.20%
32	4 Inch MF	3	167,000	573.97	592.30	18.33	3.19%
33	Subtotal	136					
34							
35	5/8 Inch Fire	232	-	\$ 10.20	\$ 11.00	0.80	7.84%
36	3/4 Inch Fire	23	-	\$ 10.20	\$ 11.00	0.80	7.84%
37	1 Inch Fire	1	-	\$ 22.95	\$ 27.75	4.80	20.92%
38	Hydrant	13	21,000	64	71	7.41	11.65%
39	Goodyear	2	-	501.00	510.00	9.00	1.80%
40	4 Inch VUI	1	0	255.00	275.00	20	7.84%
41	Total	16,802					

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

# **WATER DIVISION SCHEDULES**



**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Computation of Increase in Gross Revenue  
Requirements As Adjusted

Exhibit  
Rejoinder Schedule A-1  
Page 1  
Witness: Bourassa

Line No.					
1	Fair Value Rate Base		\$	33,230,348	
2					
3	Adjusted Operating Income			2,035,639	
4					
5	Current Rate of Return			6.13%	
6					
7	Required Operating Income		\$	3,049,318	
8					
9	Required Rate of Return on Fair Value Rate Base			9.18%	
10					
11	Operating Income Deficiency		\$	1,013,679	
12					
13	Gross Revenue Conversion Factor			1.6466	
14					
15	Increase in Gross Revenue Requirement		\$	1,669,160	
16					
17	Adjusted Test Year Revenues		\$	11,201,268	
18	Increase in Gross Revenue Revenue Requirement		\$	1,669,160	
19	Proposed Revenue Requirement		\$	12,870,428	
20	% Increase			14.90%	
21					
22					
23	<b>Customer</b>	<b>Present</b>	<b>Proposed</b>	<b>Dollar</b>	<b>Percent</b>
24	<b>Classification</b>	<b>Rates</b>	<b>Rates</b>	<b>Increase</b>	<b>Increase</b>
25	5/8x3/4 Inch Residential	\$ 11,824	\$ 14,345	\$ 2,521	21.32%
26	3/4 Inch Residential	3,047,017	3,415,174	368,157	12.08%
27	3/4 Inch Residential - Low Income	7,293	7,757	464	6.36%
28	1 Inch Residential	3,360,696	3,981,180	620,484	18.46%
29	1 Inch Residential - Low Income	8,528	11,098	2,570	30.14%
30	1.5 Inch Residential	44,871	52,309	7,438	16.58%
31	2 Inch Residential	4,981	5,886	905	18.17%
32	4 Inch Residential	-	-	-	0.00%
33	5/8x3/4 Inch Commercial	245	333	88	36.08%
34	3/4 Inch Commercial	8,987	10,685	1,699	18.90%
35	1 Inch Commercial	28,013	33,745	5,732	20.46%
36	1.5 Inch Commercial	118,831	137,671	18,840	15.85%
37	2 Inch Commercial	684,406	807,345	122,939	17.96%
38	4 Inch Commercial	242,692	272,348	29,656	12.22%
39	8 Inch Commercial	10,786	14,027	3,241	30.05%
40	10 Inch Commercial	36,262	42,203	5,941	16.38%
41	5/8x3/4 Inch Irrigation	906	1,071	165	18.23%
42	3/4 Inch Irrigation	58,536	67,354	8,819	15.07%
43	1 Inch Irrigation	292,670	337,167	44,496	15.20%
44	1.5 Inch Irrigation	342,197	388,790	46,594	13.62%
45	2 Inch Irrigation	1,777,002	2,008,098	231,096	13.00%
46	4 Inch Irrigation	140,026	159,349	19,323	13.80%
47	1 Inch MF	1,558	2,264	706	45.30%
48	1.5 Inch MF	47,101	54,084	6,984	14.83%
49	2 Inch MF	320,997	376,103	55,106	17.17%
50	4 Inch MF	47,487	54,277	6,790	14.30%
51	5/8x3/4 Inch Fire	28,594	38,847	10,253	35.86%
52	3/4 Inch Fire	2,879	3,910	1,031	35.81%
53	1 Inch Fire	275	374	99	35.95%
54	Hydrant	68,030	75,439	7,409	10.89%
55	Sweeper	700	776	76	10.89%
56	8 Inch Goodyear	128,952	142,421	13,469	10.44%
57	4 Inch VUI	3,060	4,164	1,104	36.08%
58	Declining Usage Adjustment	(58,703)	(58,703)	-	0.00%
59	Revenue Annualization	147,042	173,966	26,923	18.31%
60	<b>Subtotal</b>	<b>\$ 10,964,740</b>	<b>\$ 12,635,858</b>	<b>\$ 1,671,118</b>	<b>15.24%</b>
61					
62	Other Water Revenues	235,723	235,723	(0)	0.00%
63	Reconciling Amount	805	(1,153)	(1,958)	-243.23%
64	Rounding			-	0.00%
65	<b>Total of Water Revenues</b>	<b>\$ 11,201,268</b>	<b>\$ 12,870,428</b>	<b>\$ 1,669,160</b>	<b>14.90%</b>

66  
67  
68 SUPPORTING SCHEDULES:  
69 B-1  
70 C-1  
71 C-3  
72 H-1

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Summary of Rate Base

Exhibit  
Rejoinder Schedule B-1  
Page 1  
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	\$ 90,867,014	\$ 90,867,014
3	Less: Accumulated Depreciation	18,927,597	18,927,597
4			
5	Net Utility Plant in Service	\$ 71,939,416	\$ 71,939,416
6			
7	<u>Less:</u>		
8	Advances in Aid of Construction	30,374,274	30,374,274
9			
10	Contributions in Aid of Construction	7,425,812	7,425,812
11			
12	Accumulated Amortization of CIAC	(1,285,854)	(1,285,854)
13			
14	Customer Meter Deposits	1,271,802	1,271,802
15	Custmer Security Deposits	147,661	147,661
16	Accumulated Deferred Income Tax	866,443	866,443
17			
18			
19	<u>Plus:</u>		
20			
21	Deferred Regulatory Assets TCE Plume	91,069	91,069
22	Deferred Tax Assets	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	\$ 33,230,348	\$ 33,230,348
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41	<u>SUPPORTING SCHEDULES:</u>		
42	B-2		
43	B-3		
44	B-5		
45	E-1		
46			
47			
48			
49			
50			

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
**Test Year Ended December 31, 2012**  
**Original Cost Rate Base Proforma Adjustments**

Exhibit  
Rejoinder Schedule B-2  
Page 1  
Witness: Bourassa

Line No.		Adjusted at End of <u>Test Year</u>	Proforma <u>Adjustment</u>	Rejoinder Adjusted at end of <u>Test Year</u>
1	Gross Utility			
2	Plant in Service	\$ 91,151,411	(284,397)	\$ 90,867,014
3				
4	<b>Less:</b>			
5	Accumulated			
6	Depreciation	16,514,086	2,413,511	18,927,597
7				
8				
9	Net Utility Plant			
10	in Service	\$ 74,637,324		\$ 71,939,416
11				
12	<b>Less:</b>			
13	Advances in Aid of			
14	Construction	30,374,274	-	30,374,274
15				
16	Contributions in Aid of			
17	Construction - Gross	7,324,578	101,234	7,425,812
18				
19	Accumulated Amortization of CIAC	(1,489,772)	203,918	(1,285,854)
20				
21	Customer Meter Deposits	1,271,802	-	1,271,802
22	Customer Security Deposits	140,147	7,514	147,661
23	Accumulated Deferred Income Tax	1,459,075	(592,632)	866,443
24				-
25				-
26				
27	<b>Plus:</b>			
28				
29	Deferred Regulatory Assets TCE Plume	90,381	688	91,069
30	Prepayments	-		-
31	Materials and Supplies	-		-
32	Working capital	-	-	-
33				-
34				
35	<b>Total</b>	<b>\$ 35,647,602</b>		<b>\$ 33,230,348</b>

46 SUPPORTING SCHEDULES:  
47 B-2, pages 2  
48 E-1

RECAP SCHEDULES:  
B-1

49  
50  
51

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments

Exhibit  
Rejoinder Schedule B-2  
Page 2  
Witness: Bourassa

Line No.		Adjusted at End of Test Year	1	Plant-in-Service	2	Accumulated Depreciation	3	Proforma Adjustments			4	CIAC	AD/I	5	Customer Deposits	6	Regulatory Assets	7	Intentionally Left Blank	Rejoinder Adjusted at end of Test Year
1	Gross Utility																			
2	Plant in Service	\$ 91,151,411		(284,397)																90,867,014
3																				
4	Less:																			
5	Accumulated																			
6	Depreciation	16,514,086			2,413,511															18,927,597
7																				
8																				
9	Net Utility Plant																			
10	in Service	\$ 74,637,324	\$ (284,397)	\$ (2,413,511)																\$ 71,939,416
11																				
12	Less:																			
13	Advances in Aid of																			
14	Construction	30,374,274																		30,374,274
15																				
16	Contributions in Aid of																			
17	Construction (CIAC)	7,324,578					101,234													7,425,812
18																				
19	Accumulated Amort of CIAC	(1,489,772)					203,918													(1,285,854)
20																				
21	Customer Meter Deposits	1,271,802																		1,271,802
22	Customer Security Deposits	140,147													7,514					147,661
23	Accumulated Deferred Income Taxes	1,459,075											(592,632)							866,443
24																				
25																				
26	Plus:																			
27																				
28	Deferred Regulatory Assets TCE Plume																			
29	Prepayments	90,381														688				91,069
30	Materials and Supplies	-																		
31	Allowance for Cash Working Capital	-																		
32																				
33	Total	\$ 35,647,602	\$ (284,397)	\$ (2,413,511)	\$ (305,152)	\$ 592,632	\$ (7,514)	\$ 688	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,230,348
34																				
35																				
36																				
37																				
38																				
39																				
40																				
41																				

SUPPORTING SCHEDULES:  
B-2, pages 3-8  
E-1

RECAP SCHEDULES:  
B-1

**Exhibit  
Rejoinder Schedule B-2  
Page 3  
Witness: Bourassa**

Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1

[illegible]

## SUPPORTING SCHEDULES

49 B-2, pages 3.1 to 3.7

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - A

Exhibit  
Rejoinder Schedule B-2  
Page 3.1  
Witness: Bourassa

Line

No.

1 True-Up of Accruals

2

3

4

Acct.

5

No. Description

6

304 Structures and Improvements

7

307 Wells and Springs

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

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31

32

33

34

35

36

37

38

39

40

TOTALS

41

42

SUPPORTING SCHEDULE

43

Staff Adjustment #3

44

45

Adjustment

(178,617)

(18,108)

\$ (196,725)

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - B

Exhibit  
Rejoinder Schedule B-2  
Page 3.2  
Witness: Bourassa

Line

No.

Reclassification of Plant

2

3

4

Acct.

5

No. Description

Adjustment

6

304 Structures and Improvements

(2,776,772)

7

307 Wells and Springs

134,878

8

310 Power Generation Equipment

18,111

9

311 Electric Pumping Equipment

(23,502)

10

320.1 Water Treatment Plant

1,728,635

11

330.1 Storage tanks

901,841

12

340 Office Furniture and Fixtures

6,555

13

340.1 Computers and Software

7,995

14

348 Other Tangible Plant

(9,897)

15

16

17

18

19

20

21

22

23

24

25

26

27

28

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34

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39

40

TOTALS

\$ (12,156)

41

SUPPORTING SCHEDULE

42

Staff Adjustment #5

43

Staff Table 8 - Reclassification

44

45

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - C

Exhibit  
Rejoinder Schedule B-2  
Page 3.3  
Witness: Bourassa

Line

No.

1 Plant Not Used and Useful

2

3

4

Acct.

5

No. Description

6

303 Land and Land Rights

Adjustment

(6,000)

7

304 Structures and Improvements

(6,156)

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

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27

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31

32

33

34

35

36

37

38

39

40

TOTALS

\$ (12,156)

41

42

SUPPORTING SCHEDULE

43

Staff Adjustment #6

44

Staff Table 6 - Not Used and Useful Plant Items

45



Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - D

Exhibit  
Rejoinder Schedule B-2  
Page 3.4  
Witness: Bourassa

Line

No.

1 Plant Not Used and Useful

2

3

4

Acct.

5

No. Description

6

304 Structures and Improvements

7

335 Hydrants

8

9

10

11

12

13

14

15

16

17

18

19

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21

22

23

24

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38

39

40

TOTALS

41

42

SUPPORTING SCHEDULE

43

Staff Adjustment #7

44

45

Adjustment

(3,000)

(2,608)

\$ (5,608)

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - E

Exhibit  
Rejoinder Schedule B-2  
Page 3.5  
Witness: Bourassa

Line

No.

Retirement of Transportation Equipment

2

3

4

Acct.

5

No. Description

Adjustment

6

341 Transportation Equipment

(17,555)

7

8

9

10

11

12

13

14

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16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

TOTALS

\$ (17,555)

41

42

SUPPORTING SCHEDULE

43

Staff Adjustment #7

44

45

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - F

Exhibit  
Rejoinder Schedule B-2  
Page 3.6  
Witness: Bourassa

Line

No.

Retirements

1

2

3

4

Acct.

Year

5

No. Description

Reflected on B-2 Plant<sup>1</sup>

Adjustment

6

341 Transportation Equipment

2008

\$ (40,196)

7

8

\$ (40,196)

9

10

Reclassifications

11

12

Acct.

Year

13

No. Description

Year

Reflected on B-2 Plant<sup>1</sup>

Adjustment

14

341 Transportation Equipment

see below

\$ (15,144)

15

331 Trans. and Dist. Mains

2012

2012

3,985

16

345 Power Operated Equipment

2008

2008

18,003

17

331 Trans. and Dist. Mains

2006

2008

(6,844)

18

19

\$ -

20

21

22

23

24

25

26

27

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31

32

33

34

35

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37

38

39

40

Total Adjustment

\$ (40,196)

41

42

SUPPORTING SCHEDULE

43

Work papers - Supplemental Response to RUCO 6.01

44

45

<sup>1</sup> Post last test year end date

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - G

Exhibit  
Rejoinder Schedule B-2  
Page 3.7  
Witness: Bourassa

Line No.							
1	<u>Reconciliation of Plant to Plant Reconstruction</u>						
2							
3		Adjusted		Rejoinder	Rejoinder		
4	Acct.	Original	B-2	Adjusted	Plant		
5	No. Description	Cost	Adjustments	Original	Per		
6	301 Organization Cost	21,100	-	21,100	21,100		
7	302 Franchise Cost	-	-	-	-		
8	303 Land and Land Rights	1,456,278	(6,000)	1,450,278	1,450,278		
9	304 Structures and Improvements	28,000,916	(2,964,545)	25,036,371	25,036,371		
10	305 Collecting and Impounding Res.	-	-	-	-		
11	306 Lake River and Other Intakes	-	-	-	-		
12	307 Wells and Springs	3,097,345	116,770	3,214,114	3,214,114		(0)
13	308 Infiltration Galleries and Tunnels	-	-	-	-		
14	309 Supply Mains	-	-	-	-		
15	310 Power Generation Equipment	207,020	18,111	225,130	225,130		
16	311 Electric Pumping Equipment	897,792	(23,502)	874,290	874,290		
17	320 Water Treatment Equipment	-	-	-	-		
18	320.1 Water Treatment Plant	1,696,759	1,728,635	3,425,394	3,425,394		
19	320.2 Chemical Solution Feeders	-	-	-	-		
20	330 Dist. Reservoirs & Standpipe	492,176	-	492,176	492,176		
21	330.1 Storage tanks	-	901,841	901,841	901,841		
22	330.2 Pressure Tanks	-	-	-	-		
23	331 Trans. and Dist. Mains	40,259,045	(2,859)	40,256,187	40,256,187		0
24	333 Services	5,350,963	-	5,350,963	5,350,963		
25	334 Meters	4,759,560	-	4,759,560	4,759,560		
26	335 Hydrants	3,304,755	(2,608)	3,302,147	3,302,148		0
27	336 Backflow Prevention Devices	38,387	-	38,387	38,387		
28	339 Other Plant and Misc. Equip.	259,531	-	259,531	259,531		
29	340 Office Furniture and Fixtures	651,098	6,555	657,653	657,653		
30	340.1 Computers and Software	-	7,995	7,995	7,995		
31	341 Transportation Equipment	307,592	(72,896)	234,696	234,697		1
32	342 Stores Equipment	37,143	-	37,143	37,143		
33	343 Tools and Work Equipment	47,434	-	47,434	47,434		
34	344 Laboratory Equipment	5,803	-	5,803	5,803		
35	345 Power Operated Equipment	-	18,003	18,003	18,003		(0)
36	346 Communications Equipment	128,402	-	128,402	128,402		
37	347 Miscellaneous Equipment	-	-	-	-		
38	348 Other Tangible Plant	132,312	(9,897)	122,414	122,414		
39	Rounding						(1)
40	TOTALS	\$ 91,151,411	\$ (284,397)	\$ 90,867,014	\$ 90,867,015	\$	0

SUPPORTING SCHEDULE

B-2, pages 3.1 through 3.6

B-2, pages 3.8 through 3.12

Litchfield Park Service Company - Water Division  
dba Liberty Utilities  
Plant Additions and Retirements

Exhibit  
Rejoinder Schedule B-2  
Page 3.8  
Witness: Bourassa

Line No.		NARUC Account No.	Description	Per Decision			2008									
				Allowed Deprec. Rate	Plant at 9/30/2008	Accum. Deprec. At 9/30/2008	Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	3 months Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301		Organization Cost	0.00%	21,100	-	-	-	-	-	-	-	-	-	21,100	-
2	302		Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
3	303		Land and Land Rights	0.00%	1,284,595	-	(367,902)	-	-	(367,902)	-	-	-	-	916,693	-
4	304		Structures & Improvements	3.33%	24,648,251	404,869	(1,026,408)	(20,938)	-	(1,047,346)	-	-	-	200,845	23,601,905	605,714
5	305		Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-	-	-
6	306		Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-	-	-	-
7	307		Wells & Springs	3.33%	2,393,491	631,793	163	-	-	163	-	-	-	19,926	2,393,653	651,720
8	308		Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-	-	-	-
9	309		Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-	-	-
10	310		Power Generation Equipment	5.00%	202,269	56,403	-	-	-	-	-	-	-	2,528	202,269	58,932
11	311		Pumping Equipment	12.50%	917,055	598,038	-	-	-	11,723	420,594	420,594	-	22,268	508,184	199,713
12	320		Water Treatment Equipment	3.33%	-	-	-	-	-	-	-	-	-	-	-	-
13	320.1		Water Treatment Plants	3.33%	1,337,824	41,009	(46,530)	-	-	(46,530)	-	-	-	10,944	1,291,294	51,953
14	320.2		Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-	-	-	-
15	330		Distribution Reservoirs & Standpipes	2.22%	439,244	174,417	-	-	-	600	-	-	-	2,439	439,844	178,856
16	330.1		Storage Tanks	2.22%	-	-	-	-	-	-	-	-	-	-	-	-
17	330.2		Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
18	331		Transmission & Distribution Mains	2.00%	28,918,695	3,844,739	724,203	(10,868)	(6,844)	706,491	-	-	-	146,360	29,625,186	3,991,099
19	333		Services	3.33%	4,245,838	900,699	164,164	(15,625)	-	148,539	-	-	-	35,965	4,394,377	936,664
20	334		Meters	8.33%	4,133,092	1,931,628	5,723	-	-	5,723	-	-	-	86,131	4,138,815	2,017,760
21	335		Hydrants	2.00%	2,055,781	163,913	91,012	-	-	91,012	-	-	-	10,506	2,146,793	174,420
22	336		Backflow Prevention Devices	6.67%	38,387	7,546	-	-	-	-	-	-	-	640	38,387	8,186
23	339		Other Plant & Misc Equipment	6.67%	259,531	33,497	-	-	-	-	-	-	-	4,328	259,531	37,825
24	340		Office Furniture & Equipment	6.67%	551,757	124,987	-	-	-	-	-	-	-	9,201	551,757	134,187
25	340.1		Computers & Software	20.00%	-	-	-	-	-	-	-	-	-	-	-	-
26	341		Transportation Equipment	20.00%	174,415	83,060	-	(11,159)	-	(11,159)	40,196	40,196	-	7,437	123,060	50,301
27	342		Stores Equipment	4.00%	31,711	1,586	-	-	-	-	-	-	-	317	31,711	1,903
28	343		Tools, Shop & Garage Equipment	5.00%	23,350	7,113	-	-	-	-	-	-	-	292	23,350	7,405
29	344		Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
30	345		Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	113	18,003	113
31	346		Communication Equipment	10.00%	119,710	21,730	-	-	18,003	-	-	-	-	2,993	119,710	24,723
32	347		Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
33	348		Other Tangible Plant	10.00%	-	-	-	2,475	-	-	-	-	-	31	2,475	31
34			Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-	-	-
35					-	-	-	-	-	-	-	-	-	-	-	-
36			TOTALS		71,797,096	9,027,027	(440,777)	(47,431)	-	(488,208)	460,790	460,790	-	563,265	70,848,098	9,129,503

Litchfield Park Service Company - Water Division  
 dba Liberty Utilities  
 Plant Additions and Retirements

Exhibit  
 Rejoinder Schedule B-2  
 Page 3.9  
 Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2009								
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	21,100	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	92,495	-	92,495	-	-	-	-	1,008,188	-
4	304	Structures & Improvements	3.33%	1,190,719	(21,964)	(1,036,944)	-	-	-	788,138	23,733,892	1,393,852
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	501,310	(773)	65,920	-	-	-	89,140	2,960,110	740,860
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	12.50%	21,214	-	10,851	35,008	35,008	-	10,113	202,269	69,045
12	320	Water Treatment Equipment	3.33%	-	-	-	-	-	-	63,339	505,241	228,044
13	320.1	Water Treatment Plants	3.33%	2,479	(24,987)	287,816	-	-	-	47,417	1,556,602	99,370
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	2.22%	-	-	664,366	-	-	-	9,765	439,844	186,621
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	7,374	664,366	7,374
18	331	Transmission & Distribution Mains	2.00%	1,906,160	(18,664)	1,887,496	-	-	-	611,379	31,512,863	4,602,477
19	333	Services	3.33%	1,580,515	-	1,580,515	-	-	-	172,648	5,974,892	1,109,312
20	334	Meters	8.33%	51,571	-	51,571	-	-	-	346,911	4,190,386	2,364,671
21	335	Hydrants	2.00%	309,661	-	309,661	-	-	-	46,032	2,456,454	220,452
22	336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	2,560	38,387	10,746
23	339	Other Plant & Misc Equipment	6.67%	-	-	-	-	-	-	17,311	259,531	55,135
24	340	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	36,802	551,757	170,990
25	340.1	Computers & Software	20.00%	-	-	7,995	-	-	-	800	7,995	800
26	341	Transportation Equipment	20.00%	-	-	-	-	-	-	24,612	123,060	74,913
27	342	Stores Equipment	4.00%	-	-	-	-	-	-	1,268	31,711	3,171
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	1,168	23,350	8,573
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	900	18,003	1,013
31	346	Communication Equipment	10.00%	-	-	-	-	-	-	11,971	119,710	36,694
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	10.00%	15,420	-	-	-	-	-	1,019	17,895	1,049
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-
35		TOTALS		5,671,544	(66,408)	5,605,136	35,008	35,008	-	2,290,668	76,418,226	11,385,163

Litchfield Park Service Company - Water Division  
dba Liberty Utilities  
Plant Additions and Retirements

Exhibit  
Rejoinder Schedule B-2  
Page 3.10  
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2010							Accum. Deprec.	
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage AD Only	Depreciation (Calculated)		Plant Balance
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	21,100	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	430,531	(53)	430,478	-	-	-	-	1,439,666	-
4	304	Structures & Improvements	3.33%	1,284,065	(3,776)	(1,245,500)	34,789	-	-	790,911	23,768,481	2,184,763
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	56,518	-	56,518	-	-	-	99,513	3,016,628	840,373
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	12.50%	61,729	-	75,349	20,920	20,920	-	10,113	202,269	79,159
12	320	Water Treatment Equipment	3.33%	-	-	-	-	-	-	66,557	559,670	273,681
13	320.1	Water Treatment Plants	3.33%	353,630	(34)	1,215,221	1,568,817	-	-	77,956	3,125,420	177,326
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	2.22%	-	-	20,000	20,000	-	-	9,765	439,844	196,385
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	14,971	684,366	22,345
18	331	Transmission & Distribution Mains	2.00%	1,611,724	(3,139)	1,608,585	-	-	-	646,339	33,121,267	5,248,817
19	333	Services	3.33%	307,502	(207)	307,294	-	-	-	204,080	6,282,186	1,313,392
20	334	Meters	8.33%	167,302	-	167,302	-	-	-	356,027	4,357,688	2,720,688
21	335	Hydrants	2.00%	221,507	(2,608)	218,899	-	-	-	51,318	2,675,353	271,770
22	336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	2,560	38,367	13,307
23	339	Other Plant & Misc Equipment	6.67%	-	-	-	-	-	-	17,311	259,531	72,446
24	340	Office Furniture & Equipment	6.67%	-	-	6,555	6,555	-	-	37,021	558,312	208,010
25	340.1	Computers & Software	20.00%	-	-	-	-	-	-	1,599	7,995	2,399
26	341	Transportation Equipment	20.00%	4,845	-	4,845	-	-	-	25,097	127,905	100,009
27	342	Stores Equipment	4.00%	3,688	-	3,688	-	-	-	1,342	35,399	4,513
28	343	Tools, Shop & Garage Equipment	5.00%	939	-	939	-	-	-	1,191	24,289	9,764
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	900	18,003	1,913
31	346	Communication Equipment	10.00%	-	-	-	-	-	-	11,971	119,710	48,665
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-
34		Plant Held for Future Use		20,924	(9,897)	11,027	-	-	-	2,341	28,922	3,390
35												
36		TOTALS		4,524,902	(9,816)	(0)	4,515,085	20,920	20,920	2,428,883	80,912,392	13,793,126

## Plant Additions and Retirements

Page 311

NARUC			Allowed Deprec. Rate	2011					Accum. Deprec.				
Line No.	Account No.	Description		Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Retirements (Per Books)		Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	21,100
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	8,478	-	-	2,288	-	-	-	-	-	1,441,954
4	304	Structures & Improvements	3.33%	549,237	(6,188)	(494,324)	48,156	-	-	-	792,259	23,814,637	2,977,022
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	19,010	(686)	68,958	87,282	-	-	-	101,907	3,103,910	942,279
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	4,596	-	18,111	22,708	-	-	-	10,681	224,976	89,840
11	311	Pumping Equipment	12.50%	220,561	(3,315)	(47,974)	169,271	1,327	-	1,327	80,455	727,615	352,809
12	320	Water Treatment Equipment	3.33%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.33%	28,534	(223)	225,598	253,908	-	-	-	108,304	3,379,328	285,630
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	53,676	(1,344)	-	52,332	-	-	-	10,345	482,176	206,731
16	330.1	Storage Tanks	2.22%	-	-	217,475	217,475	-	-	-	17,607	901,841	39,952
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	5,388,147	(8,802)	-	5,379,345	-	-	-	716,219	38,500,612	5,965,036
19	333	Services	3.33%	382,109	(944)	-	381,165	-	-	-	215,543	6,663,351	1,528,936
20	334	Meters	8.33%	267,613	(4,811)	-	262,802	-	-	-	373,941	4,620,489	3,094,639
21	335	Hydrants	2.00%	512,885	(573)	-	512,312	-	-	-	96,630	3,187,665	330,400
22	336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	-	2,560	38,387	15,867
23	339	Other Plant & Misc Equipment	6.67%	-	-	-	-	-	-	-	17,311	259,531	89,757
24	340	Office Furniture & Equipment	6.67%	9,928	-	-	9,928	-	-	-	37,571	568,240	245,581
25	340.1	Computers & Software	20.00%	-	-	-	-	-	-	-	1,599	7,995	3,998
26	341	Transportation Equipment	20.00%	26,185	(636)	-	25,550	17,555	-	17,555	26,380	135,900	108,835
27	342	Stores Equipment	4.00%	1,116	-	-	1,116	-	-	-	1,438	36,515	5,952
28	343	Tools, Shop & Garage Equipment	5.00%	578	-	-	578	-	-	-	1,229	24,867	10,993
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	900	18,003	2,813
31	346	Communication Equipment	10.00%	3,986	(49)	-	3,937	-	-	-	12,188	123,647	60,833
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	10.00%	44,349	-	-	44,349	-	-	-	5,110	73,271	8,500
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-
35		TOTALS		7,520,985	(36,328)	(12,156)	7,472,500	18,882	-	18,882	2,582,158	88,366,010	16,366,402



Exhibit  
Rejoinder Schedule B-2  
Page 3.12  
Witness: Bourassa

NARUC Account			Allowed Deprec. Rate	2012											
Line No.	No.	Description		Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Plant only B-2 Adjust	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	21,100	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	8,324	-	-	8,324	-	-	-	-	-	-	1,450,278	-
4	304	Structures & Improvements	3.33%	1,405,618	(5,268)	(178,617)	1,221,734	-	-	-	65,110	813,369	25,036,371	3,855,501	-
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	142,804	(726)	(18,108)	123,770	13,565	-	13,565	-	105,195	-	3,214,114	1,033,909
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	155	-	-	155	-	-	-	-	11,253	-	225,130	101,092
11	311	Pumping Equipment	12.50%	147,387	(712)	-	146,675	-	-	-	14,698	100,119	-	874,290	467,627
12	320	Water Treatment Equipment	3.33%	-	-	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.33%	46,116	(50)	-	46,066	-	-	-	-	113,299	-	3,425,394	398,928
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	2.22%	-	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	10,926	-	492,176	217,657
18	331	Transmission & Distribution Mains	2.00%	1,808,114	(8,947)	3,985	1,803,153	47,578	-	47,578	-	20,021	901,841	59,973	-
19	333	Services	3.33%	(1,200,817)	(1,065)	-	(1,201,882)	110,506	-	110,506	1,827	787,568	40,256,187	6,706,853	-
20	334	Meters	8.33%	233,873	(3,333)	-	230,540	91,470	-	91,470	7,444	390,679	4,759,560	3,401,292	-
21	335	Hydrants	2.00%	120,585	(2,471)	-	118,114	3,631	-	3,631	-	64,898	3,302,148	391,667	-
22	336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	-	-	2,580	38,387	18,428	-
23	339	Other Plant & Misc Equipment	6.67%	-	-	-	-	-	-	-	568	17,311	259,531	107,636	-
24	340	Office Furniture & Equipment	6.67%	89,413	-	-	89,413	-	-	-	-	40,884	657,653	286,464	-
25	340.1	Computers & Software	20.00%	-	-	-	-	-	-	-	-	1,599	7,995	5,597	-
26	341	Transportation Equipment	20.00%	111,782	(1,468)	(3,985)	106,328	7,532	-	7,532	-	37,060	234,697	138,363	-
27	342	Stores Equipment	4.00%	628	-	-	628	-	-	-	-	1,473	37,143	7,425	-
28	343	Tools, Shop & Garage Equipment	5.00%	22,870	(303)	-	22,567	-	-	-	-	1,808	47,434	12,800	-
29	344	Laboratory Equipment	10.00%	5,803	-	-	5,803	-	-	-	-	290	5,803	290	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	900	18,003	3,713	-
31	346	Communication Equipment	10.00%	4,827	(72)	-	4,755	-	-	-	498	12,602	128,402	73,934	-
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	10.00%	49,143	-	-	49,143	-	-	-	1,695	9,784	122,414	19,980	-
34		Plant Held for Future Use													
35		TOTALS		2,996,426	(24,414)	(186,725)	2,775,287	274,282	-	274,282	91,841	2,743,636	90,867,015	18,927,597	-

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2

Exhibit  
Rejoinder Schedule B-2  
Page 4  
Witness: Bourassa

Accumulated Depreciation													
Line No.	Acct. No.	Description	Adjusted Accum. Depr.	A	B	C	D	E	F	G	H	I	Rejoinder Adjusted Accum. Depr.
			21,100	True-Up of Accruals	Plant Reclassification	Plant Not Used and Useful	Duplicate Invoices	Retirement Trans. Equip	Annualized Depreciation (21,100)	Plant Additions Wrong Yrs	Retirements and Reclassifications	Adjustments to Reconcile A/D to Reconstruction	
1			-										-
2			-										-
3			-										-
4			-										-
5	301	Organization Cost	-										-
6	302	Franchise Cost	-										-
7	303	Land and Land Rights	-										-
8	304	Structures and Improvements	3,036,910	(2,974)	(249,236)	(308)	(250)		1,006,248	65,110			3,855,501
9	305	Collecting and Impounding Re	-										-
10	306	Lake River and Other Intakes	-										-
11	307	Wells and Springs	915,114	(301)	11,127				107,969			(0)	1,033,909
12	308	Infiltration Galleries and Tunnels	-										-
13	309	Supply Mains	-										-
14	310	Power Generation Equipment	87,092		1,358								-
15	311	Electric Pumping Equipment	759,242		9				12,642				101,092
16	312	Water Treatment Equipment	-						(306,323)	14,698			467,627
17	320	Water Treatment Plant	-										-
18	320.1	Water Treatment Plant	199,379		145,981				53,569				398,928
19	320.2	Chemical Solution Feeders	-										-
20	330	Dist. Reservoirs & Standpipe	205,453						12,204				217,657
21	330.1	Storage tanks	-		59,973								59,973
22	330.2	Pressure Tanks	-										-
23	331	Trans. and Dist. Mains	5,947,658						757,892	1,827	(525)	0	6,706,853
24	333	Services	1,409,855						208,613				1,618,468
25	334	Meters	2,960,806						433,042	7,444			3,401,292
26	335	Hydrants	335,259				(130)		56,539			0	391,667
27	336	Backflow Prevention Devices	15,227						3,201				18,428
28	339	Other Plant and Misc. Equip.	85,429						21,638	568			107,636
29	340	Office Furniture and Fixtures	239,369		1,093				46,003				286,464
30	340.1	Computers and Software	-		5,597								5,597
31	341	Transportation Equipment	200,543					(17,555)	43,604		(49,801)	(38,427)	138,363
32	342	Stores Equipment	5,839						1,586				7,425
33	343	Tools and Work Equipment	11,341						1,459				12,800
34	344	Laboratory Equipment	290						(0)				290
35	345	Power Operated Equipment	-								3,713	(0)	3,713
36	346	Communications Equipment	58,472						14,964	498			73,934
37	347	Miscellaneous Equipment	-										-
38	348	Other Tangible Plant	19,709		(2,474)				1,049	1,695			19,980
39			-										-
40		TOTALS	\$ 16,514,086	\$ (3,275)	\$ (26,572)	\$ (308)	\$ (380)	\$ (17,555)	\$ 2,454,800	\$ 91,841	\$ (46,613)	\$ (38,427)	\$ 18,927,597
41													
42		Adjusted Accumulated Depreciation											\$ 16,514,086
43													
44		Increase (decrease) in Accumulated Depreciation											\$ 2,413,511
45													
46		Adjustment to Accumulated Depreciation											\$ 2,413,511
47													

SUPPORTING SCHEDULES  
B-2, pages 4.1 through 4.9

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - A

Exhibit  
Rejoinder Schedule B-2  
Page 4.1  
Witness: Bourassa

Line

No.

1 A/D related to True-up of Accruals

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Acct. No.	Description	Original Cost	Depr Rate	Years	A/D
304	Structures and Improvements	(178,617)	3.33%	0.50	(2,974)
307	Wells and Springs	(18,108)	3.33%	0.50	(301)

TOTALS

\$ (196,725)

\$ (3,275)

SUPPORTING SCHEDULE

Schedule B-2, page 3.1

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - B

Exhibit  
Rejoinder Schedule B-2  
Page 4.2  
Witness: Bourassa

Line

No.

Reclassification of Plant - A/D

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Acct.			Depr			Plant	A/D
No.	Description	Year	Rate	Years		Adjustment	Adjustment
304	Structures and Improvements	2009	3.33%	3.5	\$	(1,036,948)	\$ (120,856)
304	Structures and Improvements	2010	3.33%	2.5		(1,245,500)	(103,688)
304	Structures and Improvements	2011	3.33%	1.5		(494,324)	(24,691)
Subtotal						\$ (2,776,772)	\$ (249,236)
307	Wells and Springs	2009	3.33%	3.5		65,920	7,683
307	Wells and Springs	2010	3.33%	2.5		-	-
307	Wells and Springs	2011	3.33%	1.5		68,958	3,444
Subtotal						\$ 134,878	\$ 11,127
310	Power Generation Equipment	2009	5.00%	3.5		-	-
310	Power Generation Equipment	2010	5.00%	2.5		-	-
310	Power Generation Equipment	2011	5.00%	1.5		18,111	1,358
Subtotal						\$ 18,111	\$ 1,358
311	Electric Pumping Equipment	2009	12.50%	3.5		10,851	4,747
311	Electric Pumping Equipment	2010	12.50%	2.5		13,620	4,256
311	Electric Pumping Equipment	2011	12.50%	1.5		(47,974)	(8,995)
Subtotal						\$ (23,502)	\$ 9
320.1	Water Treatment Plant	2009	3.33%	3.5		287,816	33,545
320.1	Water Treatment Plant	2010	3.33%	2.5		1,215,221	101,167
320.1	Water Treatment Plant	2011	3.33%	1.5		225,598	11,269
Subtotal						\$ 1,728,635	\$ 145,981
330.1	Storage tanks	2009	2.22%	3.5		664,366	51,621
330.1	Storage tanks	2010	2.22%	2.5		20,000	1,110
330.1	Storage tanks	2011	2.22%	1.5		217,475	7,242
Subtotal						\$ 901,841	\$ 59,973
340	Office Furniture and Fixtures	2009	6.67%	3.5		-	-
340	Office Furniture and Fixtures	2010	6.67%	2.5		6,555	1,093
340	Office Furniture and Fixtures	2011	6.67%	1.5		-	-
Subtotal						\$ 6,555	\$ 1,093
340.1	Computers and Software	2009	20.00%	3.5		7,995	5,597
340.1	Computers and Software	2010	20.00%	2.5		-	-
340.1	Computers and Software	2011	20.00%	1.5		-	-
Subtotal						\$ 7,995	\$ 5,597
348	Other Tangible Plant	2009	10.00%	3.5		-	-
348	Other Tangible Plant	2010	10.00%	2.5		(9,897)	(2,474)
348	Other Tangible Plant	2011	10.00%	1.5		-	-
Subtotal						\$ (9,897)	\$ (2,474)
TOTALS						\$ (12,156)	\$ (26,572)

SUPPORTING SCHEDULE

Schedule B-2, page 3.2

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - C

Exhibit  
Rejoinder Schedule B-2  
Page 4.3  
Witness: Bourassa

Line

No.

Plant Not Used and Useful

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4

Acct.

Depr

Plant

A/D

5

No.

Description

Year

Rate

Years

Adjustment

Adjustment

6

303

Land and Land Rights

2011

0.00%

1.5

(6,000)

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304

Structures and Improvements

2011

3.33%

1.5

(6,156)

(308)

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TOTALS

\$ (12,156) \$ (308)

41

42

SUPPORTING SCHEDULE

43

Schedule B-2, page 3.3

44

45

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - D

Exhibit  
Rejoinder Schedule B-2  
Page 4.4  
Witness: Bourassa

Line  
No.

1 Duplicate Invoices

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Acct.			Depr			Plant	A/D
<u>No.</u>	<u>Description</u>	<u>Year</u>	<u>Rate</u>	<u>Years</u>		<u>Adjustment</u>	<u>Adjustment</u>
304	Structures and Improvements	2010	3.33%	2.5		(3,000)	(250)
335	Hydrants	2010	2.00%	2.5		(2,608)	(130)

TOTALS

\$ (5,608) \$ (380)

SUPPORTING SCHEDULE

Staff Adjustment #7

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - E

Exhibit  
Rejoinder Schedule B-2  
Page 4.5  
Witness: Bourassa

Line

No.

1 Retirement of Transportation Equipment - A/D

2

3

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Acct.

5

No. Description

Year of Retirement

Adjustment

6

341 Transportation Equipment

2011

(17,555)

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Plant Held for Future Use

40

TOTALS

\$ (17,555)

41

42

SUPPORTING SCHEDULE

43

Staff Adjustment #7

44

45

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - F

Exhibit  
Rejoinder Schedule  
Page 4.6  
Witness: Bourassa

Line  
No.

1	<u>Accumulated Depreciation - Annualization Correction</u>			
2			Rejoinder	
3		Adjusted	Adjusted	Annualized
4	Acct.	Original	Original	Depreciation
5	<u>No.</u> <u>Description</u>	<u>Cost</u>	<u>Cost</u>	<u>Correction</u>
6	301 Organization Cost	21,100	-	(21,100)
7	302 Franchise Cost	-	-	-
8	303 Land and Land Rights	-	-	-
9	304 Structures and Improvements	3,036,910	4,043,158	1,006,248
10	305 Collecting and Impounding Res.	-	-	-
11	306 Lake River and Other Intakes	-	-	-
12	307 Wells and Springs	915,114	1,023,083	107,969
13	308 Infiltration Galleries and Tunnels	-	-	-
14	309 Supply Mains	-	-	-
15	310 Power Generation Equipment	87,092	99,734	12,642
16	311 Electric Pumping Equipment	759,242	452,920	(306,323)
17	320 Water Treatment Equipment	-	-	-
18	320.1 Water Treatment Plant	199,379	252,948	53,569
19	320.2 Chemical Solution Feeders	-	-	-
20	330 Dist. Reservoirs & Standpipe	205,453	217,657	12,204
21	330.1 Storage tanks	-	-	-
22	330.2 Pressure Tanks	-	-	-
23	331 Trans. and Dist. Mains	5,947,658	6,705,550	757,892
24	333 Services	1,409,855	1,618,468	208,613
25	334 Meters	2,960,806	3,393,848	433,042
26	335 Hydrants	335,259	391,798	56,539
27	336 Backflow Prevention Devices	15,227	18,428	3,201
28	339 Other Plant and Misc. Equip.	85,429	107,068	21,638
29	340 Office Furniture and Fixtures	239,369	285,371	46,003
30	340.1 Computers and Software	-	-	-
31	341 Transportation Equipment	200,543	244,147	43,604
32	342 Stores Equipment	5,839	7,425	1,586
33	343 Tools and Work Equipment	11,341	12,800	1,459
34	344 Laboratory Equipment	290	290	(0)
35	345 Power Operated Equipment	-	-	-
36	346 Communications Equipment	58,472	73,436	14,964
37	347 Miscellaneous Equipment	-	-	-
38	348 Other Tangible Plant	19,709	20,759	1,049
39	Plant Held for Future Use	-	-	-
40	TOTALS	\$ 16,514,086	\$ 18,968,887	\$ 2,454,800

41  
42  
43 SUPPORTING SCHEDULE  
44 Staff Adjustment #2  
45



**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - G

Exhibit  
Rejoinder Schedule  
Page 4.7  
Witness: Bourassa

Line  
No.

1 Accumulated Depreciation - Plant Additions in Wrong Years

2

3

4

Acct.

Depreciation

5

No.

Description

Correction

6

301

Organization Cost

-

7

302

Franchise Cost

-

8

303

Land and Land Rights

-

9

304

Structures and Improvements

65,110

10

305

Collecting and Impounding Res.

-

11

306

Lake River and Other Intakes

-

12

307

Wells and Springs

-

13

308

Infiltration Galleries and Tunnels

-

14

309

Supply Mains

-

15

310

Power Generation Equipment

-

16

311

Electric Pumping Equipment

14,698

17

320

Water Treatment Equipment

-

18

320.1

Water Treatment Plant

-

19

320.2

Chemical Solution Feeders

-

20

330

Dist. Reservoirs & Standpipe

-

21

330.1

Storage tanks

-

22

330.2

Pressure Tanks

-

23

331

Trans. and Dist. Mains

1,827

24

333

Services

-

25

334

Meters

7,444

26

335

Hydrants

-

27

336

Backflow Prevention Devices

-

28

339

Other Plant and Misc. Equip.

568

29

340

Office Furniture and Fixtures

-

30

340.1

Computers and Software

-

31

341

Transportation Equipment

-

32

342

Stores Equipment

-

33

343

Tools and Work Equipment

-

34

344

Laboratory Equipment

-

35

345

Power Operated Equipment

-

36

346

Communications Equipment

498

37

347

Miscellaneous Equipment

-

38

348

Other Tangible Plant

1,695

39

40

TOTALS

\$ 91,841

41

42

43

SUPPORTING SCHEDULE

44

Work papers

45

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - H

Exhibit  
Rejoinder Schedule B-2  
Page 4.8  
Witness: Bourassa

Line  
No.

Retirements A/D

1							
2							
3							
4	Acct.						
5	<u>No.</u>	<u>Description</u>	<u>Year of Retirement</u>			<u>Adjustment</u>	
6	341	Transportation Equipment	2008			(40,196)	
7							
8	Total					<u>\$ (40,196)</u>	
9							

Reclassifications A/D

12							
13	Acct.			Depr		Plant	A/D
14	<u>No.</u>	<u>Description</u>	<u>Year</u>	<u>Rate</u>	<u>Years<sup>1</sup></u>	<u>Adjustment</u>	<u>Adjustment</u>
15	341	Transportation Equipment	2012	20.00%	0.5	\$ (3,985)	\$ (399)
16	341	Transportation Equipment	2008	20.00%	4.125	(18,003)	(14,853)
17	341	Transportation Equipment	2008	20.00%	4.125	6,844	5,646
18	Subtotal					<u>\$ (15,144)</u>	<u>\$ (9,605)</u>
19							
20	331	Trans. and Dist. Mains	2012	2.00%	0.5	\$ 3,985	\$ 40
21	345	Power Operated Equipment	2008	5.00%	4.125	18,003	3,713
22	331	Trans. and Dist. Mains	2008	2.00%	4.125	(6,844)	(565)
23	Subtotal					<u>\$ 15,144</u>	<u>\$ 3,188</u>
24							
25	Total						<u>\$ (6,416)</u>
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							
36							
37							
38							
39	Total Adjustment						<u>\$ (46,613)</u>
40							

SUPPORTING SCHEDULE

Schedule B-2, page 3.6

Work papers

<sup>1</sup> Post last test year end date

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - I

Exhibit  
Rejoinder Schedule B-2  
Page 4.9  
Witness: Bourassa

Line

No.

Reconciliation of A/D to A/D Reconstruction

		Adjusted	B-2	Rejoinder	Rejoinder	
	Acct.	Original		Adjusted	A/D	
	No.	Cost A/D	Adjustments	Cost A/D	Per Reconstruction	Difference
6	301	21,100	(21,100)	-	-	-
7	302	-	-	-	-	-
8	303	-	-	-	-	-
9	304	3,036,910	818,591	3,855,501	3,855,501	-
10	305	-	-	-	-	-
11	306	-	-	-	-	-
12	307	915,114	118,795	1,033,909	1,033,909	(0)
13	308	-	-	-	-	-
14	309	-	-	-	-	-
15	310	87,092	14,000	101,092	101,092	-
16	311	759,242	(291,615)	467,627	467,627	-
17	320	-	-	-	-	-
18	320.1	199,379	199,550	398,928	398,928	-
19	320.2	-	-	-	-	-
20	330	205,453	12,204	217,657	217,657	-
21	330.1	-	59,973	59,973	59,973	-
22	330.2	-	-	-	-	-
23	331	5,947,658	759,195	6,706,853	6,706,853	0
24	333	1,409,855	208,613	1,618,468	1,618,468	-
25	334	2,960,806	440,486	3,401,292	3,401,292	-
26	335	335,259	56,408	391,667	391,667	0
27	336	15,227	3,201	18,428	18,428	-
28	339	85,429	22,207	107,636	107,636	-
29	340	239,369	47,096	286,464	286,464	-
30	340.1	-	5,597	5,597	5,597	-
31	341	200,543	(23,752)	176,790	138,363	(38,427)
32	342	5,839	1,586	7,425	7,425	-
33	343	11,341	1,459	12,800	12,800	-
34	344	290	(0)	290	290	-
35	345	-	3,713	3,713	3,713	(0)
36	346	58,472	15,462	73,934	73,934	-
37	347	-	-	-	-	-
38	348	19,709	271	19,980	19,980	-
39	Plant Held for Future Use	-	-	-	-	-
40	TOTALS	\$ 16,514,086	\$ 2,451,939	\$ 18,966,025	\$ 18,927,597	\$ (38,427)

41

42

SUPPORTING SCHEDULE

44 B-2, pages 4.1 through 4.8

45 B-2, pages 3.8 through 3.12

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment 3

Exhibit  
Rejoinder Schedule B-2  
Page 5  
Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

Line

No.

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Computed balance at 12/31/2012

Gross  
CIAC  
\$ 7,425,812

Accumulated  
Amortization  
\$ 1,285,854

Adjusted balance at 12/31/2012

\$ 7,324,578

\$ 1,489,772

Increase (decrease)

\$ 101,234

\$ (203,918)

Adjustment to CIAC/AA CIAC

\$ 101,234

\$ 203,918

Label

3a

3b

SUPPORTING SCHEDULES

E-1

B-2, page 5.1 to 5.4

Litchfield Park Service Company - Water Division dba Liberty Utilities  
 Test Year Ended December 31, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Contributions-in-aid of Construction and Amortization  
 Adjustment 4

Exhibit  
 Rejoinder Schedule B-2  
 Page 5.1  
 Witness: Bourassa

Line No.		GL Account	Depr'n Rate	Balance at 9/30/2008	2008 Activity	Balance at 12/31/2008	2009 Activity	Balance at 12/31/2009
1	Wells & Springs Contributed	8600.2.0100.10.1615.0011 Prior to Nov 2002	3.33%	-	-	-	499,000	499,000
2	Amortization							
3	Accum Amort.	8600.2.0000.10.1641.0100		-	-	-	8,308	8,308
4								
5								
6								
7								
8	Pumping Equipment - Contribu	8600.2.0100.10.1615.0011 Prior to Nov 2002	12.50%	15,219		15,219	-	15,219
9	Amortization							
10	Accum Amort.	8600.2.0000.10.1641.0100		18,824	476	19,300	1,902	21,202
11								
12								
13								
14								
15								
16	Trans/Dist Main Contributed	8600.2.0100.10.1615.0020	2.00%	2,846,725		2,846,725		2,846,725
17	Amortization							
18	Accum Amort.	8600.2.0000.10.1641.0100		742,400	14,234	756,634	56,935	813,568
19								
20								
21	Services Contributed	8600.2.0100.10.1615.0013	3.33%	151,402		151,402	448,505	599,907
22	Amortization							
23	Accum Amort.	8600.2.0000.10.1641.0100		36,723	1,260	37,983	12,509	50,492
24								
25								
26	Meters Contributed	8600.2.0100.10.1615.0021	8.33%	29,899		29,899		29,899
27	Amortization							
28	Accum Amort.	8600.2.0000.10.1641.0100		29,708	191	29,899	-	29,899
29								
30								
31	Hydrants Contributed	8600.2.0100.10.1615.0022	2.00%	52,935		52,935		52,935
32	Amortization							
33	Accum Amort.	8600.2.0000.10.1641.0100		33,051	265	33,316	1,059	34,375
34								
35								
36								
37	Land Contributed	8600.2.0100.10.1615.0022	0.00%	-		-	92,495	92,495
38	Amortization							
39	Accum Amort.							
40								
41								
42								
43								
44								
45								
46								
27	Total CIAC Water			3,096,180		3,096,180		4,136,180
28	Total Accum Amort.			860,706		877,131		957,844

Exhibit  
Schedule B-2  
Page 5.2  
Witness: Bourassa

Line No.	Depr'n Rate	GL Account	2010 Activity	Balance at 12/31/2010	2011 Activity	Balance at 12/31/2011
1		8600.2.0100.10.1615.0011	-	499,000		499,000
2		Prior to Nov 2002				
3						
4						
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Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Contributions-in-aid of Construction and Amortization  
Adjustment 4

Exhibit  
Rejoinder Schedule B-2  
Page 5.3  
Witness: Bourassa

Line No.		Depr'n Rate	GL Account	2012 Activity	Balance at 12/31/2012
1	Wells & Springs Contributed	3.33%	8600.2.0100.10.1615.0011 Prior to Nov 2002	-	499,000
2					
3					
4					
5					
6	Amortization			16,617	
7	Accum Amort.		8600.2.0000.10.1641.0100	16,617	58,158
8					
9	Pumping Equipment - Contrib.	12.50%	8600.2.0100.10.1615.0011 Prior to Nov 2002	-	40,572
10					
11					
12	Amortization			5,071	
13	Accum Amort.		8600.2.0000.10.1641.0100	5,071	31,663
14					
15					
16	Trans/Dist Main Contributed	2.00%	8600.2.0100.10.1615.0020	3,046,493	5,893,218
17					
18					
19	Amortization			87,399	
20	Accum Amort.		8600.2.0000.10.1641.0100	87,399	1,014,837
21					
22	Services Contributed	3.33%	8600.2.0100.10.1615.0013	172,302	772,209
23					
24					
25	Amortization			22,846	
26	Accum Amort.		8600.2.0000.10.1641.0100	22,846	113,292
27					
28	Meters Contributed	8.33%	8600.2.0100.10.1615.0021		29,899
29					
30					
31	Amortization			-	29,899
32	Accum Amort.		8600.2.0000.10.1641.0100	-	29,899
33					
34	Hydrants Contributed	2.00%	8600.2.0100.10.1615.0022	45,484	98,419
35					
36					
37	Amortization			1,514	
38	Accum Amort.		8600.2.0000.10.1641.0100	1,514	38,006
39					
40	Land Contributed	0.00%	8600.2.0100.10.1615.0022		92,495
41					
42					
43					
44					
45					
46	Total CIAC Water				7,425,812
27					
28					
29	Total Accum Amort.				1,285,854

Litchfield Park Service Company - Water Division dba Liberty Utilities  
 Test Year Ended December 31, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment 4

Exhibit  
 Rejoinder Schedule B-2  
 Page 6.0  
 Witness: Bourassa

Line No.	Deferred Income Tax as of December 31, 2012				Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Effective Tax Rate	Future Tax Asset		Future Tax Liability	
		Water & Sewer Adjusted Book Value	Water & Sewer Tax Value					Current	Non Current	Current	Non Current
1		Plant-in-Service	\$ 162,040,849 <sup>1</sup>								
2		Accum. Deprec.	(32,475,811) <sup>1</sup>								
3		C/IAC	(59,777,267) <sup>3</sup>								
4											
5											
6											
7											
8											
9	Fed.	Fixed Assets	\$ 69,787,771	\$ 47,372,348 <sup>2</sup>	100.0%	\$ (22,415,423)	31.79%				(7,125,863)
10											
11	State	Fixed Assets	\$ 69,787,771	\$ 74,030,636 <sup>2</sup>	100.0%	\$ 4,242,865	6.500%		275,786		
12											
13	Fed & State	A/IAC		13,973,563 <sup>4</sup>	100.0%	\$ 13,973,563 <sup>4</sup>	38.29%	\$	5,350,477		
14											
15											
16											
17											
18		Net Asset (Liability)						\$ (1,499,600)			
19		Allocation Factor - Water-Division (based on rate base before ADIT)						0.5778			
20											
21		Net Asset (Liability) Water Division						\$ (866,443)			
22											
23		Adjusted DIT Asset (Liability)						\$ (1,459,075)			
24											
25		Adjustment to DIT						\$ (592,632)			
26											
27											
28											
29											
30											
31											
32											
33											
34											
35											
36											
37											
38											
39											
40											

Footnotes - See page 7.1



<sup>1</sup> Per adjusted book balances, land not included

**2 Computation of Net Tax Value December 31, 2012**

Based on 2012 Tax Depreciation report (December 31, 2012) as amended  
 Unadjusted Cost at December 31, 2012 per federal and state tax depr. report  
 Reconciling items not on tax report:  
 Land on Tax and not on included in adjusted plant balance  
 FA Accrual on not on tax report  
 Proposed Plant Retirements  
 Proposed Plant Retirements Rejoinder  
 Post Test Year plant  
 Post Test Year Plant Retirement

Net Unadjusted Cost tax Basis at December 31, 2012

**Reductions**

Basis Reduction 2012 and Prior Years per federal and state tax depr. report  
 Accumulated Depreciation 2012 and prior per federal and state tax depr. report  
 Proposed Plant Retirements  
 Proposed Plant Retirements Rejoinder  
 Post Test Year Plant Retirement

Net Reductions through December 31, 2012

Net tax value of plant-in-service at December 31, 2012

<sup>3</sup> CIAC (including impact of change to probability of realization)

Gross CIAC per adjusted book balances  
 CIAC reductions/additions  
 A.A per adjusted book balances

Net CIAC before unrealized AIAC

Unrealized AIAC Component  
 AIAC per adjusted book balances

Adjusted Net AIAC (see footnote 5 below)  
 Unrealized AIAC Component % (1-Realized AIAC Component)

Total realizable CIAC

<sup>4</sup> AIAC (including impact of change in probability of realization)

AIAC per adjusted book balances  
 Less: Unrealized AIAC (from Note 3, above)

Subtotal

Meter and Service Line Installation Charges per adjusted book balances  
 Total realizable AIAC

	FEDERAL	STATE
\$ 85,943,311	\$ 84,887,919	
(1,055,392)	-	
6,391,333	6,391,333	
(1,712,539)	(1,712,539)	
(17,555)	(17,555)	
1,102,722	1,102,722	
(38,457)	(38,457)	
		\$ 90,613,423
\$ (25,331,094)	\$ -	
(19,678,532)	(18,351,338)	
1,712,539	1,712,539	
17,555	17,555	
38,457	38,457	
		\$ 90,613,423
	(43,241,075)	
	\$ 47,372,348	
		\$ (16,582,787)
		\$ 74,030,636

\$ 35,802,727

\$ (5,439,155)

(5,439,155)

\$ 30,363,572

\$ 42,019,564

70.0%

\$ 29,413,695

\$ 59,777,267

\$

\$ 42,019,564

\$ (29,413,695)

\$

\$ 12,605,869

1,367,694

\$ 13,973,563

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 5

Exhibit  
Rejoinder Schedule B-2  
Page 7  
Witness: Bourassa

Line

No.

1 Customer Security Deposits

2

3 Adjustment to Customer Security Deposits based upon a 13 month average

\$ 7,514

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42 SUPPORTING SCHEDULE

43 Staff Adjustment #10

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Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 6

Exhibit  
Rejoinder Schedule B-2  
Page 8  
Witness: Bourassa

Line

No.

1 Regulatory Assets

2

3 Adjustment for additional Regulatory Asset amounts

\$ 688

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42 SUPPORTING SCHEDULE

43 RUCO Adjustment #10

44

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**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Computation of Working Capital

Exhibit  
Rejoinder Schedule B-5  
Page 1  
Witness: Bourassa

Line  
No.

1	Cash Working Capital (1/8 of Allowance	
2	Operation and Maintenance Expense)	\$ 506,180
3	Pumping Power (1/24 of Pumping Power)	37,647
4	Purchased Water (1/24 of Purchased Water)	-
5	Prepaid Expenses	
6		
7		
8		
9	Total Working Capital Allowance	<u>\$ 543,827</u>
10		
11		
12	Working Capital Requested	<u>\$ -</u>
13		
14		
15		
16		
17		Rejoinder
18	Total Operating Expense	<u>Adjusted Test Year</u>
19	Less:	\$ 9,165,629
20	Income Tax	\$ 1,053,663
21	Property Tax	531,421
22	Depreciation	2,627,581
23	Purchased Water	-
24	Pumping Power	903,527
25	Allowable Expenses	<u>\$ 4,049,437</u>
26	1/8 of allowable expenses	<u>\$ 506,180</u>

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29 SUPPORTING SCHEDULES:  
30 E-1

RECAP SCHEDULES:  
B-1

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**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Income Statement

Exhibit  
Rejoinder Schedule C-1  
Page 1  
Witness: Bourassa

Line No.		Adjusted Test Year Results	Adjustment	Rejoinder Adjusted Test Year Results	Proposed Rate Increase	Adjusted with Rate Increase
1	<b>Revenues</b>					
2	Metered Water Revenues	\$ 10,965,545	\$ -	\$ 10,965,545	\$ 1,669,160	\$ 12,634,705
3	Unmetered Water Revenues	-	-	-	-	-
4	Other Water Revenues	235,723	-	235,723	-	235,723
5		<u>\$ 11,201,268</u>	<u>\$ -</u>	<u>\$ 11,201,268</u>	<u>\$ 1,669,160</u>	<u>\$ 12,870,428</u>
6	<b>Operating Expenses</b>					
7	Salaries and Wages	\$ 1,069,839	-	\$ 1,069,839	-	\$ 1,069,839
8	Purchased Water	2,615	-	2,615	-	2,615
9	Purchased Power	903,527	-	903,527	-	903,527
10	Fuel For Power Production	-	-	-	-	-
11	Chemicals	208,080	-	208,080	-	208,080
12	Materials and Supplies	91,139	-	91,139	-	91,139
13	Management Services - US Liberty Water	1,260,835	(10,249)	1,250,586	-	1,250,586
14	Management Services - Corporate	781,023	-	781,023	-	781,023
15	Management Services - Other	-	-	-	-	-
16	Outside Services - Accounting	9,271	-	9,271	-	9,271
17	Outside Services - Engineering	-	-	-	-	-
18	Outside Services- Other	103,412	-	103,412	-	103,412
19	Outside Services- Legal	19,865	-	19,865	-	19,865
20	Water Testing	66,942	(22,062)	44,880	-	44,880
21	Rents - Building	-	-	-	-	-
22	Rents - Equipment	7,229	-	7,229	-	7,229
23	Transportation Expenses	103,726	-	103,726	-	103,726
24	Insurance - General Liability	88,374	-	88,374	-	88,374
25	Insurance - Vehicle	20,825	-	20,825	-	20,825
26	Reg. Comm. Exp. - Other	19,721	851	20,572	-	20,572
27	Reg. Comm. Exp. - Rate Case	65,800	-	65,800	-	65,800
28	Miscellaneous Expense	151,237	(10,177)	141,060	-	141,060
29	Bad Debt Expense	(76)	21,216	21,140	-	21,140
30	Depreciation and Amortization Expense	2,615,868	11,713	2,627,581	-	2,627,581
31	Taxes Other Than Income	-	-	-	-	-
32	Property Taxes	559,122	(27,701)	531,421	26,511	557,931
33	Income Tax	1,028,589	25,074	1,053,663	628,971	1,682,634
34			-	-	-	-
35	<b>Total Operating Expenses</b>	<u>\$ 9,176,963</u>	<u>\$ (11,334)</u>	<u>\$ 9,165,629</u>	<u>\$ 655,481</u>	<u>\$ 9,821,110</u>
36	<b>Operating Income</b>	<u>\$ 2,024,305</u>	<u>\$ 11,334</u>	<u>\$ 2,035,639</u>	<u>\$ 1,013,679</u>	<u>\$ 3,049,318</u>
37	<b>Other Income (Expense)</b>					
38	Interest Income	-	-	-	-	-
39	Other income	-	-	-	-	-
40	Interest Expense	(388,078)	50,574	(337,505)	-	(337,505)
41	Other Expense	-	-	-	-	-
42		-	-	-	-	-
43	<b>Total Other Income (Expense)</b>	<u>\$ (388,078)</u>	<u>\$ 50,574</u>	<u>\$ (337,505)</u>	<u>\$ -</u>	<u>\$ (337,505)</u>
44	<b>Net Profit (Loss)</b>	<u>\$ 1,636,227</u>	<u>\$ 61,908</u>	<u>\$ 1,698,134</u>	<u>\$ 1,013,679</u>	<u>\$ 2,711,814</u>

SUPPORTING SCHEDULES:  
C-1, page 2  
E-2

RECAP SCHEDULES:  
A-1

Litchfield Park Service Company - Water Division  
dba Liberty Utilities  
Test Year Ended December 31, 2012  
Income Statement

Exhibit  
Rejoinder Schedule C-1  
Page 2.1  
Witness: Bourassa

Line No.	1	2	3	4	5	6	7	8	9
	Adjusted Test Year Results	Property Taxes	Water Testing	Corporate Expense True-up	Corporate Allocation Expense	Interest on Customer Deposits	Bad Debt Expense	Misc. Expense	Amortization Regulatory Assets
1	Revenues								
2	Metered Water Revenues								
3	Unmetered Water Revenues								
4	Other Water Revenues								
5									
6	Operating Expenses								
7	Salaries and Wages								
8	Purchased Water								
9	Purchased Power								
10	Fuel For Power Production								
11	Chemicals								
12	Materials and Supplies								
13	Management Services - US Liberty Water								
14	Management Services - Corporate								
15	Management Services - Other								
16	Outside Services - Accounting								
17	Outside Services - Engineering								
18	Outside Services- Other								
19	Outside Services- Legal								
20	Water Testing								
21	Rents - Building								
22	Rents - Equipment								
23	Transportation Expenses								
24	Insurance - General Liability								
25	Insurance - Vehicle								
26	Reg. Comm. Exp. - Other								
27	Reg. Comm. Exp. - Rate Case								
28	Miscellaneous Expense								
29	Bad Debt Expense								
30	Depreciation and Amortization Expense								
31	Taxes Other Than Income								
32	Property Taxes								
33	Income Tax								
34									
35	Total Operating Expenses								
36	Operating Income								
37	Other Income (Expense)								
38	Interest Income								
39	Other Income								
40	Interest Expense								
41	Other Expense								
42									
43	Total Other Income (Expense)								
44	Net Profit (Loss)								
45									
46	SUPPORTING SCHEDULES:								
47	C-2								
48	E-2								

Litchfield Park Service Company - Water Division  
 dba Liberty Utilities  
 Test Year Ended December 31, 2012  
 Income Statement

Exhibit  
 Rejoinder Schedule C-1  
 Page 2.2  
 Witness: Bourassa

Line No.		10 Interest Synch.	11 Income Taxes	12 Intentionally Left Blank	13 Intentionally Left Blank	14 Intentionally Left Blank	15 Intentionally Left Blank	16 Intentionally Left Blank	17 Intentionally Left Blank	Rejoinder Adjusted Test Year Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues									\$ 10,965,545	\$ 1,669,160	\$ 12,634,705
2	Metered Water Revenues									235,723		235,723
3	Unmetered Water Revenues									\$ 11,201,268	\$ 1,669,160	\$ 12,870,428
4	Other Water Revenues											
5												
6	Operating Expenses											
7	Salaries and Wages									\$ 1,069,839		\$ 1,069,839
8	Purchased Water									2,615		2,615
9	Purchased Power									903,527		903,527
10	Fuel For Power Production											
11	Chemicals											
12	Materials and Supplies									208,080		208,080
13	Management Services - US Liberty Water									91,139		91,139
14	Management Services - Corporate									1,250,586		1,250,586
15	Management Services - Other									781,023		781,023
16	Outside Services - Accounting											
17	Outside Services - Engineering											
18	Outside Services- Other											
19	Outside Services- Legal											
20	Water Testing											
21	Rents - Building									9,271		9,271
22	Rents - Equipment											
23	Transportation Expenses									103,412		103,412
24	Insurance - General Liability									19,865		19,865
25	Insurance - Vehicle									44,880		44,880
26	Reg. Comm. Exp. - Other											
27	Reg. Comm. Exp. - Rate Case											
28	Miscellaneous Expense											
29	Bad Debt Expense									141,060		141,060
30	Depreciation and Amortization Expense									21,140		21,140
31	Taxes Other Than Income									2,627,581		2,627,581
32	Property Taxes										26,511	26,511
33	Income Tax									1,053,663	628,971	1,682,634
34												
35	Total Operating Expenses									\$ 9,165,629	\$ 655,481	\$ 9,821,110
36	Operating Income											
37	Other Income (Expense)											
38	Interest Income											
39	Other Income											
40	Interest Expense											
41	Other Expense											
42												
43	Total Other Income (Expense)									(337,505)		(337,505)
44	Net Profit (Loss)											
45												
46												
47												
48												

RECAP SCHEDULES:  
 C-1, page 1

SUPPORTING SCHEDULES:  
 C-2  
 E-2

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Adjustments to Revenues and Expenses

Exhibit  
Rejoinder Schedule C-2  
Page 1  
Witness: Bourassa

Line No.	<u>Adjustments to Revenues and Expenses</u>						
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	
	<u>Depreciation</u>	<u>Property Taxes</u>	<u>Water Testing</u>	<u>Corporate Expense True-up</u>	<u>Corporate Allocation Expense</u>	<u>Interest on Customer Deposits</u>	<u>Subtotal</u>
Revenues							-
Expenses	11,713	(27,701)	(22,062)	(8,420)	(1,829)	5,931	(42,368)
Operating Income	(11,713)	27,701	22,062	8,420	1,829	(5,931)	42,368
Interest Expense							-
Other Income / Expense							-
Net Income	(11,713)	27,701	22,062	8,420	1,829	(5,931)	42,368
	<u>Adjustments to Revenues and Expenses</u>						
	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	
	<u>Bad Debt Expense</u>	<u>Misc. Expense</u>	<u>Amortization Regulatory Assets</u>	<u>Interest Synch.</u>	<u>Income Taxes</u>	<u>Intentionally Left Blank</u>	<u>Total</u>
Revenues							-
Expenses	21,216	(16,108)	851		25,074	-	(11,334)
Operating Income	(21,216)	16,108	(851)	-	(25,074)	-	11,334
Interest Expense	-			50,574			50,574
Other Income / Expense							-
Net Income	(21,216)	16,108	(851)	50,574	(25,074)	-	61,908



**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
**Test Year Ended December 31, 2012**  
**Adjustments to Revenues and Expenses**  
**Adjustment Number 1**

Exhibit  
Rejoinder Schedule C-2  
Page 2  
Witness: Bourassa

**Depreciation Expense**

Line No.	Acct.	Description	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1					
2					
3					
4	No.	Description	Cost	Rates	Expense
5	301	Organization Cost	21,100	0.00%	-
6	302	Franchise Cost	-	0.00%	-
7	303	Land and Land Rights	1,450,278	0.00%	-
8	304	Structures and Improvements	25,036,371	3.33%	833,711
9	305	Collecting and Impounding Res.	-	2.50%	-
10	306	Lake River and Other Intakes	-	2.50%	-
11	307	Wells and Springs	3,214,114	3.33%	107,030
12	308	Infiltration Galleries and Tunnels	-	6.67%	-
13	309	Supply Mains	-	2.00%	-
14	310	Power Generation Equipment	225,130	5.00%	11,257
15	311	Electric Pumping Equipment	874,290	12.50%	109,286
16	320	Water Treatment Equipment	-	3.33%	-
17	320.1	Water Treatment Plant	3,425,394	3.33%	114,066
18	320.2	Chemical Solution Feeders	-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	492,176	2.22%	10,926
20	330.1	Storage tanks	901,841	2.22%	20,021
21	330.2	Pressure Tanks	-	5.00%	-
22	331	Trans. and Dist. Mains	40,256,187	2.00%	805,124
23	333	Services	5,350,963	3.33%	178,187
24	334	Meters	4,759,560	8.33%	396,471
25	335	Hydrants	3,302,148	2.00%	66,043
26	336	Backflow Prevention Devices	38,387	6.67%	2,560
27	339	Other Plant and Misc. Equip.	259,531	6.67%	17,311
28	340	Office Furniture and Fixtures	657,653	6.67%	43,865
29	340.1	Computers and Software	7,995	20.00%	1,599
30	341	Transportation Equipment	234,697	20.00%	46,939
31	342	Stores Equipment	37,143	4.00%	1,486
32	343	Tools and Work Equipment	47,434	5.00%	2,372
33	344	Laboratory Equipment	5,803	10.00%	580
34	345	Power Operated Equipment	18,003	5.00%	900
35	346	Communications Equipment	128,402	10.00%	12,840
36	347	Miscellaneous Equipment	-	10.00%	-
37	348	Other Tangible Plant	122,414	10.00%	12,241
38		TOTALS	\$ 90,867,015		\$ 2,794,816
39					
40			Gross CIAC	Amort. Rate	
41		Less: Amortization of Contributions			
42	307	Wells and Springs	\$ 499,000	3.3300%	\$ (16,617)
43	311	Electric Pumping Equipment	\$ 40,572	12.5000%	(5,071)
44	331	Trans. and Dist. Mains	\$ 5,893,218	2.0000%	(117,864)
45	333	Services	\$ 772,209	3.3300%	(25,715)
46	334	Meters	\$ 29,899	8.3300%	-
47	335	Hydrants	\$ 98,419	2.0000%	(1,968)
48			\$ 6,834,317		\$ (167,235)
49		Total Depreciation Expense			\$ 2,627,581
50		Adjusted Test Year Depreciation Expense			2,615,868
51					
52		Increase (decrease) in Depreciation Expense			11,713
53					
54		Adjustment to Revenues and/or Expenses			\$ 11,713
55					
56		<u>SUPPORTING SCHEDULE</u>			

\*Fully Depreciated/Amortized

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 2

Exhibit  
Rejoinder Schedule C-2  
Page 3  
Witness: Bourassa

**Property Taxes**

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	\$ 11,201,268	\$ 11,201,268
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	22,402,536	22,402,536
4	Company Recommended Revenue	11,201,268	12,870,428
5	Subtotal (Line 4 + Line 5)	33,603,803	35,272,963
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	11,201,268	11,757,654
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	22,402,536	23,515,309
10	Plus: 10% of CWIP (Intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	96,334	96,334
12	Full Cash Value (Line 9 + Line 10 - Line 11)	22,306,202	23,418,975
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	4,238,178	4,449,605
15	Composite Property Tax Rate - Obtained from ADOR	12.5389%	12.5389%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 531,421	\$ 557,931
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	\$ 531,421	
19	Adjusted Test Year Property Taxes	\$ 559,122	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	\$ (27,701)	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		\$ 557,931
23	Company Test Year Adjusted Property Tax Expense (Line 18)		\$ 531,421
24	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 26,511
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 26,511
27	Increase in Revenue Requirement		\$ 1,669,160
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.58826%
29			
30			
31			
32			
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34			
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39			
40			

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 3

Exhibit  
Rejoinder Schedule C-2  
Page 4  
Witness: Bourassa

Water Testing

Line  
No.

1

2

3

Recommended Water Testing Expense

\$ 44,880

4

5

Adjusted Test Year Water Testing Expense

66,942

6

7

Increase(decrease) Rate Case Expense

\$ (22,062)

8

9

Adjustment to Revenue and/or Expense

\$ (22,062)

10

11

12 Reference

13 RUCO Adjustment #6

14 Testimony

15

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**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 4

Exhibit  
Rejoinder Schedule C-2  
Page 5  
Witness: Bourassa

Corporate Allocation True-Up

Line  
No.

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Corporate Allocation True-up

\$ (29,297)

% Allocation to Water

28.74%

Total Adjustment to Management Services - US Liberty Water

\$ (8,420)

Adjustment to Revenue and/or Expense

\$ (8,420)

SUPPORTING SCHEDULES

Staff Adjustment #2

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 5

Exhibit  
Rejoinder Schedule C-2  
Page 6  
Witness: Bourassa

Corporate Allocation Expense Adjustment

Line  
No.

1		
2	Corporate Allocation Expense Adjustment	\$ (1,829)
3		
4		
5		
6	Total Adjustment to Management Services - US Liberty Water	<u>\$ (1,829)</u>
7		
8		
9	Adjustment to Revenue and/or Expense	<u>(1,829)</u>
10		
11	<u>Reference</u>	
12	<u>Testimony</u>	
13	Work Papers	
14		
15		
16		
17		
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19		
20		

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 6

Exhibit  
Rejoinder Schedule C-2  
Page 7  
Witness: Bourassa

Interest on Customer Security Deposits

Line  
No.

1		
2	Interest on Customer Deposits	\$ 5,931
3		
4		
5		
6	Adjustment to Miscellaneous Expense	<u>\$ 5,931</u>
7		
8		
9	Adjustment to Revenue and/or Expense	<u>5,931</u>
10		
11	<u>Reference</u>	
12	Staff Adjustment #4	
13	Testimony	
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22		
23		

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2001  
Adjustment to Revenues and Expenses  
Adjustment Number 7

Exhibit  
Rejoinder Schedule C-2  
Page 8  
Witness: Bourassa

Bad Debt Expense

Line  
No.

1		
2	Allocated Bad Debt Expense - Water Division	\$ 21,216
3		
4		
5		
6	Increase in Bad Debt Expense	<u>\$ 21,216</u>
7		
8		
9	Adjustment to Revenue and/or Expense	<u>21,216</u>
10		
11	<u>Reference</u>	
12	RUCO Adjustment #11	
13		
14		
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16		
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19		
20		



Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2001  
Adjustment to Revenues and Expenses  
Adjustment Number 8

Exhibit  
Rejoinder Schedule C-2  
Page 9  
Witness: Bourassa

Miscellaneous Expense

Line  
No.

1		
2	Miscellaneous Expense Adjustment	\$ (16,108)
3		
4		
5	Adjustment to Miscellaneous Expense	<u>\$ (16,108)</u>
6		
7		
8		
9	Adjustment to Revenue and/or Expense	<u>\$ (16,108)</u>
10		
11	<u>Reference</u>	
12	RUCO Adjustment 15	
13		
14		
15		
16		
17		
18		
19		
20		

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 9

Exhibit  
Rejoinder Schedule C-2  
Page 10  
Witness: Bourassa

Amortization of Regulatory Assets

Line  
No.

1		
2	Adjusted TCE Plume Balance per B-2	\$ 91,069
3	Amortization rate	10.00%
4	Annual Amortization	\$ 9,107
5		
6	Test Year Amortization	8,256
7		
8	Adjustment to Regulatory Expense - Other	<u>\$ 851</u>
9		
10		
11	Adjustment to Revenue and/or Expense	<u>851</u>
12		

13 Reference

14 Testimony

15

16

17

18

19

20

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
**Test Year Ended December 31, 2012**  
**Adjustment to Revenues and Expenses**  
**Adjustment Number 10**

Exhibit  
Rejoinder Schedule C-2  
Page 11  
Witness: Bourassa

Interest Synchronization

Line  
No.

1				
2				
3				
4	Fair Value Rate Base	\$	33,230,348	
5	Weighted Cost of Debt		1.02%	
6	Interest Expense	\$	337,505	
7				
8	Test Year Interest Expense	\$	388,078	
9				
10	Increase (decrease) in Interest Expense		(50,574)	
11				
12				
13				
14	Adjustment to Revenue and/or Expense	\$	50,574	
15				
16				
17	<u>Weighted Cost of Debt Computation</u>			
18				
19		<u>Percent</u>	<u>Cost</u>	<u>Weighted Cost</u>
20	Debt	15.87%	6.40%	1.02%
21	Equity	84.13%	9.70%	8.16%
22	Total	100.00%		9.18%
23				
24				
25				
26				
27				
28				
29				
30				

Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012  
Adjustment to Revenues and/or Expenses  
Adjustment Number 11

Exhibit  
Rejoinder Schedule C-2  
Page 12  
Witness: Bourassa

Line  
No.

1 Income Taxes

2

3

4 Computed Income Tax

5 Test Year Income tax Expense

6 Adjustment to Income Tax Expense

7

8

9

10

11

12

13 SUPPORTING SCHEDULE

14 C-3, page 2

15

16

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30

Test Year  
at Present Rates

\$ 1,053,663

-

\$ 1,053,663

Test Year  
at Proposed Rates

\$ 1,682,634

1,053,663

\$ 628,971

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Computation of Gross Revenue Conversion Factor

Exhibit  
Rejoinder Schedule C-3  
Page 1  
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	38.290%
2		
3	Property Taxes	0.980%
4		
5		
6	Total Tax Percentage	39.270%
7		
8	Operating Income % = 100% - Tax Percentage	60.730%
9		
10		
11		
12		
13	<u>1</u> = Gross Revenue Conversion Factor	
14	Operating Income %	1.6466
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
26	C-3, page 2	A-1
27		
28		
29		
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Litchfield Park Service Company - Water Division dba Liberty Utilities  
Test Year Ended December 31, 2012

Exhibit  
Rejoinder Schedule C-3  
Page 2  
Witness: Bourassa

## GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.2701%					
5	Subtotal (L3 - L4)	60.7299%					
6	Revenue Conversion Factor (L1 / L5)	1.646636					
<u>Calculation of Uncollectible Factor:</u>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	38.2900%					
9	One Minus Combined Income Tax Rate (L7 - L8)	61.7100%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	6.5000%					
14	Federal Taxable Income (L12 - L13)	93.5000%					
15	Applicable Federal Income Tax Rate (L55 Col F)	34.0000%					
16	Effective Federal Income Tax Rate (L14 x L15)	31.7900%					
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.2900%				
<u>Calculation of Effective Property Tax Factor:</u>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	38.2900%					
20	One Minus Combined Income Tax Rate (L18-L19)	61.7100%					
21	Property Tax Factor	1.5863%					
22	Effective Property Tax Factor (L20*L21)		0.9801%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.2701%			
24	Required Operating Income	\$ 3,049,318					
25	Adjusted Test Year Operating Income (Loss)	\$ 2,035,639					
26	Required Increase in Operating Income (L24 - L25)		\$ 1,013,679				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ 1,682,634					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$ 1,053,663					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 628,971				
30	Recommended Revenue Requirement	\$ 12,870,428					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue	\$ 557,931					
36	Property Tax on Test Year Revenue	\$ 531,421					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 26,511				
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ 1,669,160				

	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Income Tax:</u>						
39	Revenue	\$ 11,201,268	\$ 11,201,268	\$ 12,870,428		\$ 12,870,428
40	Operating Expenses Excluding Income Taxes	8,111,965	8,111,965	8,138,476		8,138,476
41	Synchronized Interest (L47)	337,505	337,505	337,505		337,505
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 2,751,798	\$ 2,751,798	\$ 4,394,447		\$ 4,394,447
43	Arizona State Effective Income Tax Rate (see work papers)	6.5000%	6.5000%	6.5000%		6.5000%
44	Arizona Income Tax (L42 x L43)	\$ 178,867	\$ 178,867	\$ 285,639		\$ 285,639
45	Federal Taxable Income (L42- L44)	\$ 2,572,931	\$ 2,572,931	\$ 4,108,809		\$ 4,108,809
46						
47	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500	\$ 7,500	\$ 7,500		\$ 7,500
48	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ 6,250	\$ 6,250	\$ 6,250		\$ 6,250
49	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500	\$ 8,500	\$ 8,500		\$ 8,500
50	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 91,650	\$ 91,650	\$ 91,650		\$ 91,650
51	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ 760,897	\$ 760,897	\$ 1,283,095		\$ 1,283,095
52						
53	Total Federal Income Tax	\$ 874,797	\$ 874,797	\$ 1,396,995		\$ 1,396,995
54	Combined Federal and State Income Tax (L35 + L42)	\$ 1,053,663	\$ 1,053,663	\$ 1,682,634		\$ 1,682,634
55	COMBINED Applicable Federal Income Tax Rate [Col. (D), L53 - Col. (A), L53] / [Col. (D), L45 - Col. (A), L45]					
56	WASTEWATER Applicable Federal Income Tax Rate [Col. (E), L53 - Col. (B), L53] / [Col. (E), L45 - Col. (B), L45]					
57	WATER Applicable Federal Income Tax Rate [Col. (F), L53 - Col. (C), L53] / [Col. (F), L45 - Col. (C), L45]					
				34.0000%	0.0000%	34.0000%

Calculation of Interest Synchronization:

58	Rate Base	\$ 33,230,348
59	Weighted Average Cost of Debt	1.0157%
60	Synchronized Interest (L59 X L60)	\$ 337,505

**Litchfield Park Service Company - Water Division dba Liberty Utilities**

Test Year Ended December 31, 2012

Revenue Summary

With Annualized Revenues to Year End Number of Customers

Exhibit  
Rejoinder Schedule H-1  
Page 1  
Witness: Bourassa

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8x3/4 Inch	Residential	\$ 11,824	\$ 14,345	\$ 2,521	21.32%	0.11%	0.11%
2	3/4 Inch	Residential	3,047,017	3,415,174	368,157	12.08%	27.20%	26.54%
3	3/4 Inch	Residential - Low Income	7,293	7,757	464	6.36%	0.07%	0.06%
4	1 Inch	Residential	3,360,696	3,981,180	620,484	18.46%	30.00%	30.93%
5	1 Inch	Residential - Low Income	8,528	11,098	2,570	30.14%	0.08%	0.09%
6	1.5 Inch	Residential	44,871	52,309	7,438	16.58%	0.40%	0.41%
7	2 Inch	Residential	4,981	5,886	905	18.17%	0.04%	0.05%
8	4 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
9								
10		Subtotal	6,485,210	7,487,749	1,002,539	15.46%	57.90%	58.18%
11								
12	5/8x3/4 Inch	Commercial	\$ 245	\$ 333	\$ 88	36.08%	0.00%	0.00%
13	3/4 Inch	Commercial	8,987	10,685	1,699	18.90%	0.08%	0.08%
14	1 Inch	Commercial	28,013	33,745	5,732	20.46%	0.25%	0.26%
15	1.5 Inch	Commercial	118,831	137,671	18,840	15.85%	1.06%	1.07%
16	2 Inch	Commercial	684,406	807,345	122,939	17.96%	6.11%	6.27%
17	4 Inch	Commercial	242,692	272,348	29,656	12.22%	2.17%	2.12%
18	8 Inch	Commercial	10,786	14,027	3,241	30.05%	0.10%	0.11%
19	10 Inch	Commercial	36,262	42,203	5,941	16.38%	0.32%	0.33%
20								
21		Subtotal	1,130,221	1,318,357	188,136	16.65%	10.09%	10.24%
22								
23								
24	5/8x3/4 Inch	Irrigation	\$ 906	\$ 1,071	\$ 165	18.23%	0.01%	0.01%
25	3/4 Inch	Irrigation	58,536	67,354	8,819	15.07%	0.52%	0.52%
26	1 Inch	Irrigation	292,670	337,167	44,496	15.20%	2.61%	2.62%
27	1.5 Inch	Irrigation	342,197	388,790	46,594	13.62%	3.05%	3.02%
28	2 Inch	Irrigation	1,777,002	2,008,098	231,096	13.00%	15.86%	15.60%
29	4 Inch	Irrigation	140,026	159,349	19,323	13.80%	1.25%	1.24%
30								
31		Subtotal	2,611,336	2,961,830	350,493	13.42%	23.31%	23.01%
32								
33	1 Inch	MF	1,558	2,264	706	45.31%	0.01%	0.02%
34	1.5 Inch	MF	47,101	54,084	6,984	14.83%	0.42%	0.42%
35	2 Inch	MF	320,997	376,103	55,106	17.19%	2.87%	2.92%
36	4 Inch	MF	47,487	54,277	6,790	14.30%	0.42%	0.42%
37		Subtotal	417,143	486,729	69,586	16.68%	3.72%	3.78%
38								
39	5/8x3/4 Inch	Fire	\$ 28,594	\$ 38,847	\$ 10,253	35.86%	0.26%	0.30%
40	3/4 Inch	Fire	2,879	3,910	1,031	35.81%	0.03%	0.03%
41	1 Inch	Fire	275	374	99	35.95%	0.00%	0.00%
42		Hydrant	68,030	75,439	7,409	10.89%	0.61%	0.59%
43		Sweeper	700	776	76	10.89%	0.01%	0.01%
44	8 Inch	Goodyear	128,952	142,421	13,469	10.44%	1.15%	1.11%
45	4 Inch	VUI	3,060	4,164	1,104	36.08%	0.03%	0.03%
46		Total Revenues Before Annualization	10,876,400	12,520,596	1,643,015	15.11%	97.10%	97.28%
47								

### Revenue Summary

Page 2

Total Revenue Annualization



Litchfield Park Service Company - Water Division dba Liberty Utilities

Test Year Ended December 31, 2012

Revenue Summary

With Annualized Revenues to Year End Number of Customers

Exhibit  
Rejoinder Schedule H-1  
Page 3  
Witness: Bourassa

Line No.		Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
3	Subtotal Metered Revenues	\$ 10,876,400	\$ 12,520,596	\$ 1,644,195	15.12%	97.10%	97.28%
4	Declining Usage Adjustment	(58,703)	(58,703)	-	0.00%	-0.52%	-0.46%
5	Subtotal Revenue Annualization	147,042	173,966	26,923	18.31%	1.31%	1.35%
6	Total Metered Revenues	\$ 10,964,740	\$ 12,635,858	\$ 1,671,118	15.24%	97.89%	98.18%
8	Misc. Revenues	\$ 235,723	\$ 235,723	(0)	0.00%	2.10%	1.83%
9	Reconciling Amount to GL	805	(1,153)	(1,958)	-243.23%	0.01%	-0.01%
10	Total Water Revenues	\$ 11,201,268	\$ 12,870,428	\$ 1,669,160	14.90%	100.00%	100.00%

Litchfield Park Service Company - Water Division dba Liberty Utilities

Test Year Ended December 31, 2012

Customer Summary

Exhibit  
Rejoinder Schedule H-2  
Page 1  
Witness: Bourassa

Line No.	Meter Size, Class	Average Number of Customers at 12/31/2012	Average Bill		Proposed Increase		
			Average Consumption	Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8x3/4 Inch Residential	58	4,277	\$ 15.64	\$ 19.37	3.73	23.86%
2	3/4 Inch Residential	9,320	8,827	24.33	28.24	3.91	16.08%
3	3/4 Inch Residential - Low Income	29	7,138	19.47	21.21	1.74	8.93%
4	1 Inch Residential	5,835	13,707	44.58	53.18	8.60	19.29%
5	1 Inch Residential - Low Income	24	8,161	28.89	37.68	8.79	30.44%
6	1.5 Inch Residential	26	40,907	130.15	150.45	20.30	15.60%
7	2 Inch Residential	2	53,542	183.86	215.45	31.58	17.18%
8	4 Inch Residential	-	-	255.00	347.00	92.00	36.08%
9	Subtotal	15,293					
10							
11	5/8x3/4 Inch Commercial	2	-	\$ 10.20	\$ 13.88	3.68	36.08%
12	3/4 Inch Commercial	31	6,052	21.76	25.68	3.92	18.03%
13	1 Inch Commercial	44	12,065	48.54	58.23	9.68	19.95%
14	1.5 Inch Commercial	54	51,926	163.53	187.47	23.94	14.64%
15	2 Inch Commercial	253	57,587	191.59	223.33	31.74	16.57%
16	4 Inch Commercial	7	926,238	2,859.90	3,205.36	345.46	12.08%
17	8 Inch Commercial	1	30,000	898.80	1,168.90	270.10	30.05%
18	10 Inch Commercial	1	895,000	2,882.45	3,341.45	459.00	15.92%
19	Subtotal	393					
20							
21	5/8x3/4 Inch Irrigation	3	6,528	\$ 22.67	\$ 26.61	3.94	17.39%
22	3/4 Inch Irrigation	119	12,057	36.65	41.70	5.05	13.77%
23	1 Inch Irrigation	232	30,391	95.18	108.61	13.43	14.11%
24	1.5 Inch Irrigation	98	90,421	280.18	316.82	36.64	13.08%
25	2 Inch Irrigation	249	187,244	581.75	655.58	73.83	12.69%
26	4 Inch Irrigation	8	466,516	1,466.94	1,660.70	193.75	13.21%
27	Subtotal	708					
28							
29	1 Inch MF	5	2,717	25.67	37.42	11.75	45.78%
30	1.5 Inch MF	16	71,146	221.77	252.05	30.28	13.65%
31	2 Inch MF	112	64,098	208.62	241.81	33.19	15.91%
32	4 Inch MF	3	393,611	1,246.04	1,415.73	169.69	13.62%
33	Subtotal	136					
34							
35	5/8x3/4 Inch Fire	232	35	\$ 10.27	\$ 13.95	3.68	35.86%
36	3/4 Inch Fire	23	43	10.28	13.96	3.68	35.81%
37	1 Inch Fire	1	-	22.95	31.20	8.25	35.95%
38	Hydrant	13	148,689	\$ 450.53	\$ 499.59	49.07	10.89%
39	Goodyear	2	3,248,000	5,373.00	5,934.20	561.20	10.44%
40	4 Inch VUI	1	0	255.00	347.00	92	36.08%
41	Total	16,802					
42							

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Customer Summary

Exhibit  
Rejoinder Schedule H-2  
Page 2  
Witness: Bourassa

Line No.	Meter Size, Class	(a) Average Number of Customers at 12/31/2012	Median Bill		Proposed Increase	
			Consumption	Present Rates	Dollar Amount	Percent Amount
1	5/8 Inch Residential	58	4,000 \$	15.11 \$	3.72	24.62%
2	3/4 Inch Residential	9,320	7,000	20.84	3.84	18.43%
3	3/4 Inch Residential - Low Income	29	6,000	17.62	1.70	9.65%
4	1 Inch Residential	5,835	10,000	37.50	8.45	22.53%
5	1 Inch Residential - Low Income	24	8,000	28.63	8.74	30.54%
6	1.5 Inch Residential	26	34,000	115.94	19.76	17.04%
7	2 Inch Residential	2	28,500	136.04	30.58	22.48%
8	4 Inch Residential	-	-	255.00	92.00	36.08%
9	Subtotal	15,293				
10						
11	5/8 Inch Commercial	2	- \$	10.20 \$	3.68	36.08%
12	3/4 Inch Commercial	31	2,000	14.02	3.76	26.82%
13	1 Inch Commercial	44	4,000	33.14	9.36	28.24%
14	1.5 Inch Commercial	54	24,000	96.84	19.36	19.99%
15	2 Inch Commercial	253	20,000	119.80	30.24	25.24%
16	4 Inch Commercial	7	507,500	1,591.13	207.28	13.03%
17	8 Inch Commercial	1	30,000	898.80	270.10	30.05%
18	10 Inch Commercial	1	947,000	2,989.61	463.11	15.49%
19	Subtotal	393				
20						
21	5/8 Inch Irrigation	3	4,000 \$	17.84 \$	3.84	21.52%
22	3/4 Inch Irrigation	119	5,000	19.75	3.88	19.65%
23	1 Inch Irrigation	232	12,000	48.42	9.68	19.99%
24	1.5 Inch Irrigation	98	47,000	148.61	22.31	15.01%
25	2 Inch Irrigation	249	115,186	363.41	50.05	13.77%
26	4 Inch Irrigation	8	163,000	566.33	98.52	17.40%
27	Subtotal	708				
28						
29	1 Inch MF	5	2,000	24.95	11.75	47.09%
30	1.5 Inch MF	16	12,000	73.92	18.88	25.54%
31	2 Inch MF	112	33,000	144.63	30.76	21.27%
32	4 Inch MF	3	167,000	573.97	98.68	17.19%
33	Subtotal	136				
34						
35	5/8 Inch Fire	232	- \$	10.20 \$	3.68	36.08%
36	3/4 Inch Fire	23	- \$	10.20 \$	3.68	36.08%
37	1 Inch Fire	1	- \$	22.95 \$	8.25	35.95%
38	Hydrant	13	21,000	64	6.93	10.89%
39	Goodyear	2	-	501.00	74.00	14.77%
40	4 Inch VUI	1	- 0	255.00	92	36.08%
41	Total	16,802				
42						

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
 Test Year Ended December 31, 2012  
 Present and Proposed Rates

Exhibit  
 Rejoinder Schedule H-3  
 Page 1  
 Witness: Bourassa

Line No.	Monthly Usage Charge for: Meter Size (All Classes):	Present Rates	Proposed Rates	Change	Percent Change
1	5/8x3/4 Inch	\$ 10.20	\$ 13.88	\$ 3.68	36.08%
2	3/4 Inch - Residential	10.20	13.88	3.68	36.08%
3	3/4 Inch	10.20	13.88	3.68	36.08%
3	1 Inch - Residential	22.95	31.20	8.25	35.95%
4	1 Inch	25.50	34.70	9.20	36.08%
4	1 1/2 Inch	51.00	69.40	18.40	36.08%
5	2 Inch	81.60	111.04	29.44	36.08%
6	3 Inch	163.20	222.08	58.88	36.08%
7	4 Inch	255.00	347.00	92.00	36.08%
8	6 Inch	510.00	694.00	184.00	36.08%
9	8 Inch - Bulk Water Only	501.00	575.00	74.00	14.77%
10	8 Inch	841.50	1,110.40	268.90	31.95%
11	10 Inch	1,173.00	1,596.20	423.20	36.08%
12	12 Inch	2,193.00	2,984.20	791.20	36.08%
13					
14	Construction - Hydrants	\$ -	\$ -		
15					
16	Gallons In Minimum (All Meter Sizes and Classes)				
17					
18					

Commodity Rates (Residential, Commercial, Industrial)	Block	Present Rate (Per 1,000 gallons)	Proposed Rate
5/8x3/4 Inch and 3/4 Inch Meter - Residential	0 gallons to 3,000 gallons 3,001 gallons to 9,000 gallons over 9,000 gallons	\$ 1.00 \$ 1.91 \$ 3.03	\$ 1.00 \$ 1.95 \$ 2.95 \$ 3.36
5/8x3/4 Inch and 3/4 Inch Meter - Residential	0 gallons to 3,000 gallons 3,001 gallons to 11,000 gallons 11,001 gallons to 20,000 gallons over 20,000 gallons	\$ 1.00 \$ 1.91 \$ 3.03	\$ 1.00 \$ 1.95 \$ 2.95 \$ 3.36
5/8x3/4 Inch and 3/4 Inch Meter - Com., Itr.	0 gallons to 9,000 gallons over 9,000 gallons	\$ 1.91 \$ 3.03	\$ 1.95 \$ 3.36
1 Inch Meter - Residential, MF	0 gallons to 5,000 gallons 5,001 gallons to 20,000 gallons over 20,000 gallons	\$ 1.00 \$ 1.91 \$ 3.03	\$ 1.00 \$ 1.95 \$ 2.95 \$ 3.36
1 Inch Meter - Residential, MF	0 gallons to 5,000 gallons 5,001 gallons to 20,000 gallons 20,001 gallons to 30,000 gallons over 30,000 gallons	\$ 1.00 \$ 1.91 \$ 3.03	\$ 1.00 \$ 1.95 \$ 2.95 \$ 3.36

NT = No Tariff

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
 Test Year Ended December 31, 2012  
 Present and Proposed Rates

Exhibit  
 Rejoinder Schedule H-3  
 Page 2  
 Witness: Bourassa

Line No.	Commodity Rates (Residential, Commercial, Industrial)	Block	(Per 1,000 gallons)	
			Present Rate	Proposed Rate
1				
2				
3				
4				
5	1 Inch Meter - All Classes, except Residential	0 gallons to 20,000 gallons over 20,000 gallons	\$ 1.91 \$	1.95
6			\$ 3.03 \$	3.36
7				
8	1.5 Inch Meter - All Classes	0 gallons to 40,000 gallons over 40,000 gallons	\$ 1.91 \$	1.95
9			\$ 3.03 \$	3.36
10				
11	2 Inch Meter - All Classes	0 gallons to 60,000 gallons over 60,000 gallons	\$ 1.91 \$	1.95
12			\$ 3.03 \$	3.36
13				
14	3 Inch Meter - All Classes	0 gallons to 120,000 gallons over 120,000 gallons	\$ 1.91 \$	1.95
15			\$ 3.03 \$	3.36
16				
17	4 Inch Meter - All Classes	0 gallons to 180,000 gallons over 180,000 gallons	\$ 1.91 \$	1.95
18			\$ 3.03 \$	3.36
19				
20	6 Inch Meter - All Classes	0 gallons to 360,000 gallons over 360,000 gallons	\$ 1.91 \$	1.95
21			\$ 3.03 \$	3.36
22				
23	8 Inch Meter - Bulk resale only	All gallons	\$ 1.50 \$	1.65
24				
25	8 Inch Meter - All Classes	0 gallons to 650,000 gallons over 650,000 gallons	\$ 1.91 \$	1.95
26			\$ 3.03 \$	3.36
27				
28	10 Inch Meter - All Classes	0 gallons to 940,000 gallons over 940,000 gallons	\$ 1.91 \$	1.95
29			\$ 3.03 \$	3.36
30				
31	12 Inch Meter - All Classes	0 gallons to 1,248,000 gallons over 1,248,000 gallons	\$ 1.91 \$	1.95
32			\$ 3.03 \$	3.36
33				
34				
35				
36				
37				
38	<u>Construction- Hydrants</u>	All gallons	\$ 3.03 \$	3.36
39				
40				
41				
42				
43				

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Changes in Representative Rate Schedules  
Test Year Ended December 31, 2012

Exhibit  
Rejoinder Schedule H-3  
Page 3  
Witness: Bourassa

Line  
No.

1

2

3 Other Service Charges

4 Establishment (Regular Hours) per Rule R14-2-403D (a)

Present Rates	Proposed Rates
\$ 20.00	\$ 20.00

5 Establishment (After Hours) per Rule R14-2-403D (a)

\$ 40.00	NT
----------	----

6 Re-Establishment of Service per Rule R14-2-403D (a)

(b)	(b)
-----	-----

7 Reconnection (Regular Hours) per Rule R14-2-403D (a)

\$ 50.00	\$ 20.00
----------	----------

8 Reconnection (After Hours) per Rule R14-2-403D (a)

\$ 65.00	NT
----------	----

9 Meter Test (if correct) per Rule R14-2-408F (c)

\$ 25.00	\$ 25.00
----------	----------

10 Meter Reread per Rule R14-2-408C (if correct)

\$ 5.00	\$ 5.00
---------	---------

11 Fire Hydrant Meter Relocation

NT	\$ 50.00
----	----------

12 Fire Hydrant Meter Repair

NT	Cost
----	------

13 NSF Check per Rule R14-2-409F (a)

\$ 20.00	\$ 25.00
----------	----------

14 Deferred Payment, Per Month

1.50%	1.50%
-------	-------

15 Late Charge

(c)	(c)
-----	-----

16 Service Calls - Per Hour/After Hours(d)

\$ 40.00	\$ 40.00
----------	----------

17 Deposit Requirements

(f)	(f)
-----	-----

18 Deposit Interest

3.50%	6.00%
-------	-------

19 Meter and Service lines

see H-3, page 4

20 Main Extension Tariff

at Cost	at Cost
---------	---------

21

22

23

24 (a) Charges applicable to water service.

25 (b) Minimum charge times number of full months off the system. per Rule R14-2-403(D).

26 (c) Greater of \$5.00 of 1.5% of unpaid balance.

27 (d) After hours service charge is appropriate when it is at the customer's request or convenience. It compensates the utility for additional expenses incurred for providing after-hours services. It is appropriate to apply this charge for any utility service provided after hours at the customer's request or for the customer's convenience.

30 (e) Per ACC Rules R14-2-403(B) Residential - two times the average bill.

31 Commercial - two and one-half times the average bill.

32

33

34 IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM  
35 ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE  
36 TAX. PER COMMISSION RULE 14-2-409D(5).

37

38

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Meter and Service Line Charges

Exhibit  
Rejoinder Schedule H-3  
Page 4  
Witness: Bourassa

Line  
No.

1

2

**Refundable Meter and Service Line Charges**

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N/T = No Tariff

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**Hydrant Meter Deposit\***

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\* Shall have a non-interest bearing deposit of the amount indicated , refundable in its entirety upon return of the meter in good condition and payment of the final bill.

	Present Service Line Charge	Present Meter Install- ation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Install- ation Charge	Total Proposed Charge
5/8 x 3/4 Inch	\$ 385.00	\$ 135.00	\$ 520.00	\$ 445.00	\$ 155.00	\$ 600.00
3/4 Inch	385.00	215.00	600.00	445.00	255.00	700.00
1 Inch	435.00	255.00	690.00	495.00	315.00	810.00
1 1/2 Inch	470.00	465.00	935.00	550.00	525.00	1,075.00
2 Inch / Turbine	630.00	965.00	1,595.00	At Cost	At Cost	At Cost
2 Inch / Compound	630.00	1,690.00	2,320.00	At Cost	At Cost	At Cost
3 Inch / Turbine	805.00	1,470.00	2,275.00	At Cost	At Cost	At Cost
3 Inch / Compound	845.00	2,265.00	3,110.00	At Cost	At Cost	At Cost
4 Inch / Turbine	1,170.00	2,350.00	3,520.00	At Cost	At Cost	At Cost
4 Inch / Compound	1,230.00	3,245.00	4,475.00	At Cost	At Cost	At Cost
6 Inch / Turbine	1,730.00	4,545.00	6,275.00	At Cost	At Cost	At Cost
6 Inch / Compound	1,770.00	6,280.00	8,050.00	At Cost	At Cost	At Cost
8 Inch & Larger	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

	Present Charge	Proposed Charge
5/8 x 3/4 Inch	\$ 135.00	\$ 135.00
3/4 Inch	215.00	215.00
1 Inch	255.00	255.00
1 1/2 Inch	465.00	465.00
2 Inch / Turbine	965.00	965.00
2 Inch / Compound	1,690.00	1,690.00
3 Inch / Turbine	1,470.00	1,470.00
3 Inch / Compound	2,265.00	2,265.00
4 Inch / Turbine	2,350.00	2,350.00
4 Inch / Compound	3,245.00	3,245.00
6 Inch / Turbine	4,545.00	4,545.00
6 Inch / Compound	6,280.00	6,280.00
8 Inch & Larger	At Cost	At Cost

**Litchfield Park Service Company - Water Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Hook-Up Fees

Exhibit  
Rejoinder Schedule H-3  
Page 5  
Witness: Bourassa

Line

No.

1

2 **Off-site Facilities Hook-up Fee**

3

4

5

6 5/8 x 3/4 Inch

	Present	Proposed
	<u>Charge</u>	<u>Charge</u>
\$	1,800	\$ 1,800

7 3/4 Inch

2,700 2,700

8 1 Inch

4,500 4,500

9 1 1/2 Inch

9,000 9,000

10 2 Inch

14,400 14,400

11 3 Inch

28,800 28,800

12 4 Inch

45,000 45,000

13 6 Inch or Larger

90,000 NT

14 6 Inch

NT 90,000

15 8 Inch

NT 144,000

16 10 Inch

NT 310,500

17 12 Inch

NT 967,500

18

19

20

21 NT = No Tariff

22

23

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**WASTEWATER  
DIVISION  
SCHEDULES**

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Computation of Increase in Gross Revenue  
Requirements As Adjusted

Exhibit  
Rejoinder Schedule A-1  
Page 1  
Witness: Bourassa

Line  
No.

1	Fair Value Rate Base	\$	24,153,028
2			
3	Adjusted Operating Income		1,911,051
4			
5	Current Rate of Return		7.91%
6			
7	Required Operating Income	\$	2,216,355
8			
9	Required Rate of Return on Fair Value Rate Base		9.18%
10			
11	Operating Income Deficiency	\$	305,305
12			
13	Gross Revenue Conversion Factor		1.6496
14			
15	Increase in Gross Revenue		
16	Requirement	\$	503,628
17			
18	Adjusted Test Year Revenues	\$	10,362,796
19	Increase in Gross Revenue Revenue Requirement	\$	503,628
20	Proposed Revenue Requirement	\$	10,866,424
21	% Increase		4.86%
22			

<u>Customer</u>	<u>Present</u>	<u>Proposed</u>	<u>Dollar</u>	<u>Percent</u>
<u>Classification</u>	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
25 Residential	\$ 7,214,632	\$ 7,586,558	\$ 371,926	5.16%
26 Residential - Low Income	23,862	25,092	1,230	5.16%
27 Residential HOA 145	67,843	71,340	3,497	5.16%
28 Residential HOA 172	80,475	84,624	4,149	5.16%
29 Residential HOA 560	262,013	275,520	13,507	5.16%
30 Multi-Unit 3	10,423	10,958	536	5.14%
31 Multi-Unit 5	4,524	4,756	233	5.14%
32 Multi-Unit 6	6,948	7,306	357	5.14%
33 Multi-Unit 7	109,439	115,063	5,625	5.14%
34 Multi-Unit 8	6,948	7,306	357	5.14%
35 Multi-Unit 13	62,102	65,294	3,192	5.14%
36 Multi-Unit 15	267,082	280,809	13,727	5.14%
37 Multi-Unit 16	6,948	7,306	357	5.14%
38 Multi-Unit 17	7,383	7,762	379	5.14%
39 Multi-Unit 22	9,554	10,045	491	5.14%
40 Multi-Unit 43	18,674	19,634	960	5.14%
41 Multi-Unit 78	33,874	35,615	1,741	5.14%
42 Multi-Unit 84	36,480	38,354	1,875	5.14%
43 Multi-Unit 123	106,833	112,324	5,491	5.14%
44 Multi-Unit 282	122,467	128,761	6,294	5.14%
45 Small Commercial	75,094	78,967	3,873	5.16%
46 Regular Domestic	438,612	461,199	22,587	5.15%
47 Restaurant, Motels, Grocery, Dry Cleaning	375,664	395,010	19,346	5.15%
48 Wigwam Resort - Per Room	143,312	150,678	7,366	5.14%
49 Wigwam Resort - Main	17,200	18,085	886	5.15%
50 Elementary Schools	70,174	73,788	3,614	5.15%
51 Middle and High Schools	55,039	57,873	2,834	5.15%
52 Community College	21,327	22,426	1,098	5.15%
53 Effluent Sales	72,967	72,967	-	0.00%
54 Revenue Annualization	126,683	133,383	6,700	5.29%
55				
56 <b>Subtotal</b>	<b>\$ 9,854,576</b>	<b>\$ 10,358,803</b>	<b>\$ 504,227</b>	<b>5.12%</b>
57				
58 Other Water Revenues	508,220	508,220	-	0.00%
59 Reconciling Amount	-	(815)	(815)	0.00%
60 Rounding			-	0.00%
61 <b>Total of Water Revenues</b>	<b>\$ 10,362,796</b>	<b>\$ 10,866,208</b>	<b>\$ 503,412</b>	<b>4.86%</b>
62				

SUPPORTING SCHEDULES:  
65 B-1  
66 C-1  
67 C-3  
68 H-1

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Summary of Rate Base

Exhibit  
Rejoinder Schedule B-  
Page 1  
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	\$ 74,460,070	\$ 74,460,070
3	Less: Accumulated Depreciation	13,548,214	13,548,214
4			
5	Net Utility Plant in Service	\$ 60,911,856	\$ 60,911,856
6			
7	<u>Less:</u>		
8	Advances in Aid of Construction	11,645,290	11,645,290
9			
10	Contributions in Aid of Construction	28,376,915	28,376,915
11			
12	Accumulated Amortization of CIAC	(4,153,301)	(4,153,301)
13			
14	Customer Meter Deposits	95,892	95,892
15	Customer Security Deposits	163,774	163,774
16	Accumulated Deferred Income Tax	630,258	630,258
17			
18			
19	<u>Plus:</u>		
20	Unamortized Finance		
21	Charges	-	-
22	Deferred Tax Assets	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	<u>\$ 24,153,028</u>	<u>\$ 24,153,028</u>
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41	<u>SUPPORTING SCHEDULES:</u>		
42	B-2		
43	B-3		
44	B-5		
45	E-1		
46			
47			
48			
49			
50			

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments

Exhibit  
Rejoinder Schedule B-2  
Page 1  
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustment	Rejoinder Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	\$ 74,024,532	435,538	\$ 74,460,070
3				
4	<b>Less:</b>			
5	Accumulated			
6	Depreciation	13,244,186	304,027	13,548,214
7				
8				
9	Net Utility Plant			
10	in Service	\$ 60,780,346		\$ 60,911,856
11				
12	<b>Less:</b>			
13	Advances in Aid of			
14	Construction	11,645,290	-	11,645,290
15				
16	Contributions in Aid of			
17	Construction - Gross	28,470,485	(93,570)	28,376,915
18				
19	Accumulated Amortization of CIAC	(4,446,775)	293,475	(4,153,301)
20				
21	Customer Meter Deposits	95,892		95,892
22	Customer Security Deposits	155,440	8,334	163,774
23	Accumulated Deferred Income Tax	982,318	(352,060)	630,258
24				-
25				-
26				
27	<b>Plus:</b>			
28	Unamortized Finance			
29	Charges	-		-
30	Prepayments	-		-
31	Materials and Supplies	-		-
32	Working capital	-	-	-
33				-
34				
35	Total	<u>\$ 23,877,697</u>		<u>\$ 24,153,028</u>

**SUPPORTING SCHEDULES:**

B-2, pages 2

E-1

**RECAP SCHEDULES:**

B-1

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
 Test Year Ended December 31, 2012  
 Original Cost Rate Base Proforma Adjustments

Exhibit  
 Rejoinder Schedule B-2  
 Page 2  
 Witness: Bourassa

Line No.		Adjusted at End of Test Year	1	Plant-in-Service	2	Proforma Adjustments			5	Intentionally Left Blank	Rejoinder Adjusted at end of Test Year
						3	4	ADIT			
1	Gross Utility										
2	Plant in Service	\$ 74,024,532	435,538								\$ 74,460,070
3											
4	Less:										
5	Accumulated										
6	Depreciation	13,244,186		304,027							13,548,214
7											
8											
9	Net Utility Plant										
10	in Service	\$ 60,780,346	435,538	(304,027)							\$ 60,911,856
11											
12	Less:										
13	Advances in Aid of										
14	Construction	11,645,290									11,645,290
15											
16	Contributions in Aid of										
17	Construction (CIAC)	28,470,485				(93,570)					28,376,915
18											
19	Accumulated Amort of CIAC	(4,446,775)				293,475					(4,153,301)
20											
21	Customer Meter Deposits	95,892									95,892
22	Customer Security Deposits	155,440							8,334		163,774
23	Accumulated Deferred Income Taxes	982,318				(352,060)					630,258
24											
25											
26	Plus:										
27	Unamortized Finance										
28	Charges	-									-
29	Prepayments										
30	Materials and Supplies										
31	Allowance for Cash Working Capital	-									-
32											
33	Total	\$ 23,877,697	435,538	(304,027)		(199,905)	352,060		(8,334)		\$ 24,153,028
34											
35											
36											

SUPPORTING SCHEDULES:  
 B-2, pages 3-8  
 E-1

RECAP SCHEDULES:  
 B-1

**Exhibit  
Rejoinder Schedule B-2  
Page 3  
Witness: Bourassa**

Original Cost Rate Base Proforma Adjustments

Rate Base Proforma  
Adjustment Number 1

[illegible]

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - A

Exhibit  
Rejoinder Schedule B-2  
Page 3.1  
Witness: Bourassa

Line

No.

Post Test Year Plant True-up

1

2

3

4

Acct.

5

No. Description

Adjustment

6

380 Treatment & Disposal Equipment remove amount proposed in Direct

\$ (1,000,000)

7

8

354 Structures & Improvements True-up to Final Costs

\$ 1,081,134

9

371 Pumping Equipment True-up to Final Costs

21,588

10

11

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13

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39

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Net Adjustment

\$ 102,722

41

42

43

SUPPORTING SCHEDULE

44

Testimony

45

Work papers

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - B

Exhibit  
Rejoinder Schedule B-2  
Page 3.2  
Witness: Bourassa

Line

No.

1 Post Test Year Plant Retirements

2

3

4 Acct.

5 No. Description

Adjustment

6 380 Treatment & Disposal Equipment remove amount proposed in Direct

\$ 300,000

7

8 380 Treatment & Disposal Equipment true-up to actual cost

-

9

10 354 Structures & Improvements

(28,089)

11

12 371 Pumping Equipment

(10,368)

13

14

15

16

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22

23

24

25

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41 Net Adjustment

\$ 261,543

42

43 SUPPORTING SCHEDULE

44 Testimony

45



**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - C

Exhibit  
Rejoinder Schedule B-2  
Page 3.3  
Witness: Bourassa

Line  
No.

1 Accrual True-up

2

3

4

Acct.

5

No. Description

6

354 Structures & Improvements

Cost  
\$ 199,000

7

396 Communication Equip

(3,555)

8

9

10

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12

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Net Adjustment

\$ 195,445

41

42

43

SUPPORTING SCHEDULE

44

Staff Adjustment #3

45

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - D

Exhibit  
Rejoinder Schedule B-2  
Page 3.4  
Witness: Bourassa

Line

No.

Plant Reclassification

2

3

4

Acct.

5

No.

Description

Cost

6

354

Structures & Improvements

\$ (525,110)

7

361

Collection Sewers Gravity

41,564

8

364

Flow Measuring Devices

36,618

9

371

Pumping Equipment

61,670

10

380

Treatment & Disposal Equipment

476,749

11

389

Other Sewer Plant & Equipment

(43,005)

12

393

Tools, Shop And Garage Equip

(15,681)

13

394

Laboratory Equip

836

14

395

Power Operated Equipment

(21,485)

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

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31

32

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36

37

38

39

40

Net Adjustment

\$ 12,156

41

42

43

SUPPORTING SCHEDULE

44

Staff Table 6 - Reclassification

45

Testimony

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - E

Exhibit  
Rejoinder Schedule B-2  
Page 3.5  
Witness: Bourassa

Line

No.

1 Plant Not Used and Useful

2

3

4

Acct.

5

No. Description

6

353 Land

Cost  
\$ (11,217)

7

354 Structures & Improvements

(113,329)

8

9

10

11

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39

40

Net Adjustment

\$ (124,546)

41

42

43

SUPPORTING SCHEDULE

44

Staff Adjustment #6

45

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - F

Exhibit  
Rejoinder Schedule B-2  
Page 3.6  
Witness: Bourassa

Line

No.

1 Duplicate Invoices

2

3

4 Acct.

5 No. Description

6 353 Land

7 355 Power Generation

8 389 Other Sewer Plant & Equipment

9

10

11

12

13

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40 Net Adjustment

41

42

43 SUPPORTING SCHEDULE

44 Staff Adjustment #7

45

Cost

\$ (3,409)

(400)

(864)

\$ (4,673)

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - G

Exhibit  
Rejoinder Schedule B-2  
Page 3.7  
Witness: Bourassa

Line

No.

Retirements

2

3

4 Acct.

5 No.

6

Description

Year

391 Transportation Equipment

2008

Adjustment

\$ (7,110)

7

8

\$ (7,110)

9

Reclassifications

10

11

12 Acct.

13 No.

14

Description

Year

Reflected on B-2 Plant<sup>1</sup>

see below

Adjustment

\$ (6,193)

391 Transportation Equipment

2008

6,193

15

16

17

18

19

\$ -

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

Total Adjustment

\$ (7,110)

41

42

SUPPORTING SCHEDULE

43

Work papers - Supplemental Response to RUCO 6.01

44

45

<sup>1</sup> Post last test year end date

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - H

Exhibit  
Rejoinder Schedule B-2  
Page 3.8  
Witness: Bourassa

Line  
No.

1	<u>Reconciliation of Plant to Plant Reconstruction</u>						
2							
3					Rejoinder	Rejoinder	
4	Acct.		Adjusted		Adjusted	Plant	
5	No.	Description	Original	B-2	Original	Per	
6	351	Organization	Cost	Adjustments	Cost	Reconstruction	Difference
7	352	Franchise	\$ -	\$ -	\$ -	\$ -	\$ -
8	353	Land	1,850,582	(14,626)	1,835,956	1,835,956	0
9	354	Structures & Improvements	24,208,314	613,606	24,821,920	24,821,920	-
10	355	Power Generation	603,332	(400)	602,932	602,932	0
11	360	Collection Sewer Forced	1,162,597	-	1,162,597	1,162,597	-
12	361	Collection Sewers Gravity	31,886,680	41,564	31,928,245	31,928,245	-
13	362	Special Collecting Structures	-	-	-	-	-
14	363	Customer Services	76,190	-	76,190	76,190	-
15	364	Flow Measuring Devices	46,210	36,618	82,828	82,828	-
16	366	Reuse Services	4,057,660	-	4,057,660	4,057,660	-
17	367	Reuse Meters And Installation	44,753	-	44,753	44,753	-
18	370	Receiving Wells	860,393	-	860,393	860,393	-
19	371	Pumping Equipment	799,481	72,890	872,370	872,370	-
20	374	Reuse Distribution Reservoirs	62,286	-	62,286	62,286	-
21	375	Reuse Trans. and Dist. System	420,334	-	420,334	420,334	-
22	380	Treatment & Disposal Equipment	5,585,470	(223,251)	5,362,219	5,362,219	-
23	381	Plant Sewers	47,802	-	47,802	47,802	-
24	382	Outfall Sewer Lines	343,681	-	343,681	343,681	-
25	389	Other Sewer Plant & Equipment	871,498	(37,675)	833,823	833,823	-
26	390	Office Furniture & Equipment	275,740	-	275,740	275,740	-
27	390.1	Computers and Software	-	-	-	-	-
28	391	Transportation Equipment	33,497	(13,303)	20,194	20,194	-
29	392	Stores Equipment	8,968	-	8,968	8,968	-
30	393	Tools, Shop And Garage Equip	145,631	(15,681)	129,950	129,950	-
31	394	Laboratory Equip	186,348	836	187,184	187,184	-
32	395	Power Operated Equipment	28,090	(21,485)	6,605	6,605	-
33	396	Communication Equip	418,996	(3,555)	415,441	415,441	-
34	398	Other Tangible Plant	-	-	-	-	-
35							
36							
37							
38							
39							
40		Plant Held for Future Use					-
41		TOTALS	\$ 74,024,532	\$ 435,537	\$ 74,460,069	\$ 74,460,070	\$ 0
42							
43							

44 SUPPORTING SCHEDULE  
45 B-2, pages 3.1 through 3.7  
46 B-2, pages 3.9 through 3.13

Litchfield Park Service Company - WW Division  
dba Liberty Utilities  
Plant Additions and Retirements

Exhibit  
Rejoinder Schedule B-2  
Page 3.9  
Witness: Bourassa

NARUC		Per Decision				2008							Accum.		
Line No.	Account No.	Description	Allowed Deprec. Rate	Plant at 9/30/2008	Accum. Deprec. At 9/30/2008	Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
2	352	Franchise	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
3	353	Land	0.00%	1,783,426	-	-	-	-	-	-	-	-	-	1,783,426	-
4	354	Structures & Improvements	3.33%	18,720,541	1,470,581	(233,680)	(20,663)	-	(254,342)	-	-	-	154,790	18,466,199	1,625,370
5	355	Power Generation	5.00%	548,674	107,121	-	-	-	-	-	-	-	6,858	548,674	113,980
6	360	Collection Sewer Forced	2.00%	1,161,105	(207,785)	-	-	-	-	-	-	-	5,806	1,161,105	(201,979)
7	361	Collection Sewers Gravity	2.00%	23,094,661	2,850,025	681,674	(7,514)	-	674,161	-	-	-	117,159	23,768,822	2,967,184
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	-	-	-	-	-	-	-
9	363	Customer Services	2.00%	-	-	-	-	-	-	-	-	-	-	-	-
10	364	Flow Measuring Devices	10.00%	47,019	19,320	-	-	-	-	-	-	-	1,175	47,019	20,495
11	366	Reuse Services	2.00%	3,789,468	482,984	160,400	(59)	-	160,341	-	-	-	19,348	3,949,808	502,332
12	367	Reuse Meters And Installation	8.33%	52,331	7,610	1,535	-	-	1,535	-	-	-	1,106	53,866	8,716
13	370	Receiving Wells	3.33%	860,393	175,322	-	-	-	-	-	-	-	7,163	860,393	182,484
14	371	Pumping Equipment	12.50%	1,759,801	959,964	7,696	-	-	7,696	-	-	-	55,114	1,767,496	1,015,078
15	374	Reuse Distribution Reservoirs	2.50%	62,825	1,959	-	-	-	-	-	-	-	393	62,825	2,352
16	375	Reuse Trans. and Dist. System	2.50%	414,315	3,884	-	-	-	-	-	-	-	2,589	414,315	6,474
17	380	Treatment & Disposal Equipment	5.00%	5,431,228	1,365,496	(36,423)	-	-	(36,423)	-	-	-	67,663	5,394,805	1,433,159
18	381	Plant Sewers	5.00%	47,788	6,531	-	-	-	-	-	-	-	597	47,788	7,128
19	382	Outfall Sewer Lines	3.33%	343,681	70,253	-	-	-	-	-	-	-	2,861	343,681	73,114
20	389	Other Sewer Plant & Equipment	6.67%	605,548	41,241	(11,446)	6,193	-	(5,253)	-	-	-	10,054	600,295	51,294
21	390	Office Furniture & Equipment	6.67%	198,772	58,516	12,496	-	-	12,496	-	-	-	3,419	211,268	61,935
22	390.1	Computers and Software	20.00%	-	-	-	-	-	-	-	-	-	-	-	-
23	391	Transportation Equipment	20.00%	26,078	10,505	3,368	(6,193)	-	(2,825)	7,110	7,110	-	1,056	16,143	4,450
24	392	Stores Equipment	4.00%	8,968	2,156	-	-	-	-	-	-	-	90	8,968	2,246
25	393	Tools, Shop And Garage Equip	5.00%	56,167	8,241	4,879	-	-	4,879	-	-	-	733	61,046	8,973
26	394	Laboratory Equip	10.00%	173,948	60,590	-	-	-	-	-	-	-	4,349	173,948	64,939
26	395	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
26	396	Communication Equip	10.00%	418,996	195,163	-	-	-	-	-	-	-	10,475	418,996	205,638
28	398	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
29				-	-	-	-	-	-	-	-	-	-	-	-
30				-	-	-	-	-	-	-	-	-	-	-	-
31				-	-	-	-	-	-	-	-	-	-	-	-
32				-	-	-	-	-	-	-	-	-	-	-	-
33				-	-	-	-	-	-	-	-	-	-	-	-
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-	-	-
35		TOTALS		59,605,733	7,689,676	590,500	(28,236)	-	562,264	7,110	7,110	-	472,796	60,160,887	8,155,362

Litchfield Park Service Company - WW Division  
dba Liberty Utilities  
Plant Additions and Retirements

Exhibit  
Rejoinder Schedule B-2  
Page 3.10  
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2009					Depreciation (Calculated)	Plant Balance	Accum. Deprec.
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only			
1	351	Organization	0.00%	-	-	-	-	-	-	-	-
2	352	Franchise	0.00%	-	-	-	-	-	-	-	-
3	353	Land	0.00%	68,263	(11,217)	57,046	-	-	-	1,840,472	-
4	354	Structures & Improvements	3.33%	643,865	(6,430)	172,085	-	-	617,790	18,638,284	2,243,160
5	355	Power Generation	5.00%	7,457	(400)	7,058	-	-	27,610	555,731	141,590
6	360	Collection Sewer Forced	2.00%	1,200	-	1,200	-	-	23,234	1,162,305	(178,745)
7	361	Collection Sewers Gravity	2.00%	3,132,384	(18,762)	3,155,186	-	-	506,928	26,924,008	3,474,112
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	-	-	-
9	363	Customer Services	2.00%	-	-	-	-	-	-	-	-
10	364	Flow Measuring Devices	10.00%	-	36,618	36,618	-	-	6,533	83,637	27,028
11	366	Reuse Services	2.00%	107,733	-	107,733	-	-	80,073	4,057,541	582,405
12	367	Reuse Meters And Installation	8.33%	-	-	-	-	-	4,487	53,866	13,203
13	370	Receiving Wells	3.33%	-	-	-	-	-	28,851	860,393	211,136
14	371	Pumping Equipment	12.50%	59,896	-	64,944	-	-	224,996	1,832,441	1,240,074
15	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	1,571	62,825	3,922
16	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	10,358	414,315	16,832
17	380	Treatment & Disposal Equipment	5.00%	38,942	424,288	463,230	-	-	281,321	5,858,034	1,714,480
18	381	Plant Sewers	5.00%	-	-	-	-	-	2,389	47,788	9,518
19	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	11,445	343,681	84,558
20	389	Other Sewer Plant & Equipment	6.67%	78,761	(43,005)	35,756	-	-	41,232	636,051	92,526
21	390	Office Furniture & Equipment	6.67%	-	-	-	-	-	14,092	211,268	76,026
22	390.1	Computers and Software	20.00%	-	-	-	-	-	-	-	-
23	391	Transportation Equipment	20.00%	-	-	-	-	-	3,229	16,143	7,679
24	392	Stores Equipment	4.00%	-	-	-	-	-	359	8,968	2,605
25	393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	3,052	61,046	12,026
26	394	Laboratory Equip	10.00%	-	836	836	-	-	17,437	174,785	82,375
26	395	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-
26	396	Communication Equip	10.00%	-	-	-	-	-	41,900	418,996	247,538
28	398	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-
29				-	-	-	-	-	-	-	-
30				-	-	-	-	-	-	-	-
31				-	-	-	-	-	-	-	-
32				-	-	-	-	-	-	-	-
33				-	-	-	-	-	-	-	-
34		Plant Held for Future Use		-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-
36		TOTALS		4,138,501	(36,809)	0	4,101,693	-	1,948,686	64,262,579	10,104,048



Litchfield Park Service Company - WW Division  
dba Liberty Utilities  
Plant Additions and Retirements

Exhibit  
Rejoinder Schedule B-2  
Page 3.11  
Witness: Bourassa

NARUC			Allowed Deprec. Rate	2010								
Line No.	Account No.	Description		Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	-	-	-	-	-	-	-	-	-	-
2	352	Franchise	-	-	-	-	-	-	-	-	-	-
3	353	Land	1,613	(3,409)	-	(1,796)	-	-	-	-	1,838,676	-
4	354	Structures & Improvements	-	-	-	-	-	-	-	-	18,638,284	2,863,815
5	355	Power Generation	800	-	-	800	-	-	-	-	556,531	169,397
6	360	Collection Sewer Forced	-	-	-	-	-	-	-	-	23,246	(155,499)
7	361	Collection Sewers Gravity	1,324,126	(7,422)	-	1,316,704	-	-	-	-	28,240,712	4,025,759
8	362	Special Collecting Structures	-	-	-	-	-	-	-	-	-	-
9	363	Customer Services	15,630	-	-	15,630	-	-	-	-	15,630	156
10	364	Flow Measuring Devices	-	-	-	-	-	-	-	-	8,364	35,392
11	366	Reuse Services	-	-	-	-	-	-	-	-	81,151	683,556
12	367	Reuse Meters And Installation	-	-	-	-	-	-	-	-	53,866	17,690
13	370	Receiving Wells	-	-	-	-	-	-	-	-	28,651	239,787
14	371	Pumping Equipment	36,683	-	-	36,683	935,300	-	-	-	933,824	477,666
15	374	Reuse Distribution Reservoirs	-	-	-	-	-	-	-	-	62,825	5,493
16	375	Reuse Trans. and Dist. System	-	-	-	-	-	-	-	-	10,358	27,189
17	380	Treatment & Disposal Equipment	35,345	-	-	35,345	-	-	-	-	293,785	2,008,265
18	381	Plant Sewers	-	-	-	-	-	-	-	-	11,907	96,003
19	382	Outfall Sewer Lines	-	-	-	-	-	-	-	-	47,788	11,907
20	389	Other Sewer Plant & Equipment	33,548	(864)	-	32,684	-	-	-	-	5,893,380	2,008,265
21	390	Office Furniture & Equipment	10,777	-	-	10,777	-	-	-	-	343,681	96,003
22	390.1	Computers and Software	-	-	-	-	-	-	-	-	688,735	136,041
23	391	Transportation Equipment	-	-	-	-	-	-	-	-	222,046	90,477
24	392	Stores Equipment	-	-	-	-	-	-	-	-	16,143	10,908
25	393	Tools, Shop And Garage Equip	2,936	-	-	2,936	-	-	-	-	8,968	2,964
26	394	Laboratory Equip	-	-	-	-	-	-	-	-	63,982	15,151
26	395	Power Operated Equipment	-	-	-	-	-	-	-	-	3,126	99,854
26	396	Communication Equip	-	-	-	-	-	-	-	-	17,478	99,854
28	398	Other Tangible Plant	-	-	-	-	-	-	-	-	418,996	289,438
29			-	-	-	-	-	-	-	-	-	-
30			-	-	-	-	-	-	-	-	-	-
31			-	-	-	-	-	-	-	-	-	-
32			-	-	-	-	-	-	-	-	-	-
33			-	-	-	-	-	-	-	-	-	-
34			-	-	-	-	-	-	-	-	-	-
35		Plant Held for Future Use	-	-	-	-	-	-	-	-	-	-
36		TOTALS	1,461,458	(11,694)	-	1,449,764	935,300	-	-	-	64,777,043	11,131,408

Litchfield Park Service Company - WW Division  
dba Liberty Utilities  
Plant Additions and Retirements

Exhibit  
Rejoinder Schedule B-2  
Page 3.12  
Witness: Bourassa

NARUC			Allowed Deprec. Rate	2011						Accum. Deprec.		
Line No.	Account No.	Description		Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only		Depreciation (Calculated)	Plant Balance
1	351	Organization	0.00%	-	-	-	-	-	-	-	-	-
2	352	Franchise	0.00%	-	-	-	-	-	-	-	-	-
3	353	Land	0.00%	-	-	-	-	-	-	-	1,838,676	-
4	354	Structures & Improvements	3.33%	455,088	(126,691)	-	328,396	-	-	626,123	18,966,680	3,489,938
5	355	Power Generation	5.00%	48,087	-	-	48,087	-	-	29,029	604,618	198,425
6	360	Collection Sewer Force	2.00%	-	-	-	-	-	-	23,246	1,162,305	(132,253)
7	361	Collection Sewers Gravity	2.00%	3,563,023	(2,268)	-	3,560,755	-	-	600,422	31,801,467	4,626,181
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	-	-	-	-
9	363	Customer Services	2.00%	35,240	-	-	35,240	-	-	665	50,870	821
10	364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	8,364	83,637	43,756
11	366	Reuse Services	2.00%	-	-	-	-	-	-	81,151	4,057,541	744,707
12	367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-	4,487	53,866	22,177
13	370	Receiving Wells	3.33%	-	-	-	-	-	-	28,651	860,393	268,438
14	371	Pumping Equipment	12.50%	44,147	(782)	6,000	49,364	4,702	-	119,519	978,486	592,483
15	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	1,571	62,825	7,063
16	375	Reuse Trans. and Dist. System	2.50%	5,005	-	-	5,005	-	-	10,420	419,320	37,610
17	380	Treatment & Disposal Equipment	5.00%	69,624	(1,025)	6,156	74,756	-	-	296,538	5,968,136	2,304,803
18	381	Plant Sewers	5.00%	-	-	-	-	-	-	2,389	47,788	14,296
19	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	11,445	343,681	107,448
20	389	Other Sewer Plant & Equipment	6.67%	36,091	-	-	36,091	-	-	45,808	704,826	181,849
21	390	Office Furniture & Equipment	6.67%	9,304	-	-	9,304	-	-	15,121	231,350	105,598
22	390.1	Computers and Software	20.00%	-	-	-	-	-	-	-	-	-
23	391	Transportation Equipment	20.00%	-	-	-	-	-	-	3,229	16,143	14,136
24	392	Stores Equipment	4.00%	-	-	-	-	-	-	359	8,968	3,322
25	393	Tools, Shop And Garage Equip	5.00%	29,211	(485)	-	28,726	-	-	3,917	92,709	19,069
26	394	Laboratory Equip	10.00%	5,476	(187)	-	5,289	-	-	17,743	180,073	117,597
26	395	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-
26	396	Communication Equip	10.00%	-	-	-	-	-	-	41,900	418,996	331,337
28	398	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-
29				-	-	-	-	-	-	-	-	-
30				-	-	-	-	-	-	-	-	-
31				-	-	-	-	-	-	-	-	-
32				-	-	-	-	-	-	-	-	-
33				-	-	-	-	-	-	-	-	-
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-
36		TOTALS		4,300,296	(131,438)	12,156	4,181,015	4,702	-	1,972,095	68,953,355	13,098,801

Litchfield Park Service Company - WW Division  
dba Liberty Utilities  
Plant Additions and Retirements

Exhibit  
Reprint Schedule B-2  
Page 3.13  
Witness: Bourassa

NARUC			Allowed Deprec. Rate	2012							Accum. Deprec.				
Line No.	Account No.	Description		Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)		PTY Plant	PTY Retirement	PTY A/D	Plant Balance
1	351	Organization	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
2	352	Franchise	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
3	353	Land	0.00%	(2,541)	(179)	-	(2,720)	-	-	-	-	-	-	1,835,956	-
4	354	Structures & Improvements	3.33%	5,164,696	182,339	(59,760)	5,287,274	485,079	6,478	711,547	1,081,134	28,089	18,001	24,821,920	3,712,796
5	355	Power Generation	5.00%	4,604	-	-	4,604	6,291	-	30,189	-	-	-	602,932	222,323
6	360	Collection Sewer Forced	2.00%	292	-	-	292	-	-	23,249	-	-	-	1,162,597	(109,004)
7	361	Collection Sewers Gravity	2.00%	165,891	(1,400)	-	164,491	37,713	407	637,297	-	-	-	31,928,245	5,226,172
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	-	-	-	-	-	-	-
9	363	Customer Services	2.00%	25,356	(37)	-	25,320	-	-	1,271	-	-	-	76,190	2,092
10	364	Flow Measuring Devices	10.00%	-	-	-	-	809	-	8,323	-	-	-	82,828	51,269
11	366	Reuse Services	2.00%	118	-	-	118	-	23	81,152	-	-	-	4,057,660	825,882
12	367	Reuse Meters And Installation	8.33%	(4,774)	-	-	(4,774)	4,339	-	4,107	-	-	-	44,753	21,945
13	370	Receiving Wells	3.33%	-	-	-	-	-	-	28,651	-	-	-	860,393	297,089
14	371	Pumping Equipment	12.50%	257,054	(796)	-	306,880	393,199	-	114,977	21,588	10,368	-	872,370	274,226
15	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	539	-	1,564	-	-	-	62,286	8,088
16	375	Reuse Trans. and Dist. System	2.50%	1,013	-	-	1,013	-	803	10,496	-	-	-	420,334	48,908
17	380	Treatment & Disposal Equipment	5.00%	8,503	(66)	-	54,742	660,659	-	283,259	-	-	-	5,362,219	1,927,403
18	381	Plant Sewers	5.00%	14	-	-	14	-	-	2,390	-	-	-	47,802	16,686
19	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	11,445	-	-	-	343,681	118,892
20	389	Other Sewer Plant & Equipment	6.67%	136,494	-	-	136,494	7,497	-	51,314	-	-	-	833,823	225,666
21	390	Office Furniture & Equipment	6.67%	44,390	-	-	44,390	-	-	16,911	-	-	-	275,740	122,510
22	390.1	Computers and Software	20.00%	-	-	-	-	-	-	-	-	-	-	-	-
23	391	Transportation Equipment	20.00%	4,051	-	-	4,051	-	-	3,634	-	-	-	20,194	17,770
24	392	Stores Equipment	4.00%	-	-	-	-	-	-	359	-	-	-	8,968	3,681
25	393	Tools, Shop And Garage Equip	5.00%	53,206	(284)	(15,681)	37,241	-	-	5,566	-	-	-	129,950	24,635
26	394	Laboratory Equip	10.00%	7,144	(34)	-	7,111	-	-	18,363	-	-	-	187,184	135,959
26	395	Power Operated Equipment	5.00%	28,090	(21,485)	-	6,605	-	-	165	-	-	-	6,605	165
26	396	Communication Equip	10.00%	-	(3,555)	-	(3,555)	-	-	41,722	-	-	-	415,441	373,059
28	398	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
29				-	-	-	-	-	-	-	-	-	-	-	-
30				-	-	-	-	-	-	-	-	-	-	-	-
31				-	-	-	-	-	-	-	-	-	-	-	-
32				-	-	-	-	-	-	-	-	-	-	-	-
33				-	-	-	-	-	-	-	-	-	-	-	-
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-	-	-	-
36		TOTALS		5,893,803	175,989	-	6,069,592	1,596,125	7,711	2,087,950	1,102,722	38,457	19,350	74,460,070	13,548,214

Litchfield Park Service Company - WW Division  
dba Liberty Utilities  
Plant Additions and Retirements

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate
1	351	Organization	0.00%
2	352	Franchise	0.00%
3	353	Land	0.00%
4	354	Structures & Improvements	3.33%
5	355	Power Generation	5.00%
6	360	Collection Sewer Forced	2.00%
7	361	Collection Sewers Gravity	2.00%
8	362	Special Collecting Structures	2.00%
9	363	Customer Services	2.00%
10	364	Flow Measuring Devices	10.00%
11	366	Reuse Services	2.00%
12	367	Reuse Meters And Installation	8.33%
13	370	Receiving Wells	3.33%
14	371	Pumping Equipment	12.50%
15	374	Reuse Distribution Reservoirs	2.50%
16	375	Reuse Trans. and Dist. System	2.50%
17	380	Treatment & Disposal Equipment	5.00%
18	381	Plant Sewers	5.00%
19	382	Outfall Sewer Lines	3.33%
20	389	Other Sewer Plant & Equipment	6.67%
21	390	Office Furniture & Equipment	6.67%
22	390.1	Computers and Software	20.00%
23	391	Transportation Equipment	20.00%
24	392	Stores Equipment	4.00%
25	393	Tools, Shop And Garage Equip	5.00%
26	394	Laboratory Equip	10.00%
26	395	Power Operated Equipment	5.00%
26	396	Communication Equip	10.00%
28	398	Other Tangible Plant	10.00%
29			
30			
31			
32			
33			
34		Plant Held for Future Use	
35			
36		TOTALS	

Exhibit  
Rejoinder Schedule B-2  
Page 4  
Witness: Bourassa

Original Cost Rate Base Proforma Adjustments

### Adjustment Number 2

## Line

No.	Description	Adjusted Accum. Depr.	A Post Test Year Retirement	B Accrual True-Up	Adjustments					Rejoinder Adjusted Accum. Depr.
					C Plant Reclassification	D Plant Not Used and Useful	E Duplicate Invoices	F Plant Additions Wrong Yrs	G Retirements and Reclassification	
1	Organization	-	-	-	-	-	-	-	-	-
2	Franchise	-	-	-	-	-	-	-	-	-
3	Land	-	-	-	-	-	-	-	-	-
4	Accd.									
5	No.									
6	351									
7	352									
8	353									
9	354	3,773,984	(10,088)	3,313	(55,232)	(5,661)	6,478	-	3,712,796	-
10	355	222,393					(70)	-	222,323	-
11	360	(109,004)						-	0	-
12	361	5,222,855			2,910			407	(109,004)	-
13	362	-						-	5,226,172	-
14	363	2,092						-	-	-
15	364	38,453			12,816			-	2,092	-
16	366	825,859						-	51,269	-
17	367	21,945					23	-	825,882	-
18	370	297,089						-	21,945	-
19	371	276,747	(9,019)		6,497			-	297,089	-
20	374	8,088						-	274,226	-
21	375	48,106						-	8,088	-
22	380	1,551,533	300,000		75,870		803	-	48,908	-
23	381	16,886						-	1,927,403	-
24	382	118,892						-	16,886	-
25	389	234,145			(10,039)			-	118,892	-
26	390	122,510						-	225,666	-
27	390.1	-						-	1,704	-
28	391	33,497						-	(12,219)	-
29	392	3,681						-	(3,508)	-
30	393	25,027			(392)			-	3,681	-
31	394	135,667			293			-	24,635	-
32	395	702			(537)			-	135,959	-
33	396	373,237	(178)					-	165	-
34	398	-						-	373,059	-
35	-	-						-	-	-
36	-	-						-	-	-
37	-	-						-	-	-
38	-	-						-	-	-
39	-	-						-	-	-
40	Plant Held for Future Use									
41	TOTALS	\$ 13,244,186	\$ 280,893	\$ 3,136	\$ 32,185	\$ (5,661)	\$ (214)	\$ 7,711	\$ (10,515)	\$ (3,508)
42										
43	Adjusted Accumulated Depreciation								\$ 13,244,186	
44										
45	Increase (decrease) in Accumulated Depreciation								\$ 304,027	
46										
47	Adjustment to Accumulated Depreciation								\$ 304,027	

## SUPPORTING SCHEDULES

**B-2, pages 4.1 through 4.8**

51

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
**Test Year Ended December 31, 2012**  
**Original Cost Rate Base Proforma Adjustments**  
**Adjustment Number 2 - A**

**Exhibit**  
**Rejoinder Schedule B-2**  
**Page 4.1**  
**Witness: Bourassa**

Line

No.

1 A/D -Post Test Year Plant Retirements

2

3

4

Acct.

5

No. Description

Adjustment

6

380 Treatment & Disposal Equipment remove amount proposed in Direct

\$ 300,000

7

8

380 Treatment & Disposal Equipment true-up to actual cost

-

9

10

354 Structures & Improvements

(28,089)

11

12

371 Pumping Equipment

(10,368)

13

14

Subtotal

\$ 261,543

15

16

Half-year Depreciation on Post-Test Year Plant

17

18

19

Acct.

20

No. Description

Cost

Depreciation Rate

Years

21

354 Structures & Improvements

\$ 1,081,134

3.33%

0.50

\$ 18,001

22

371 Pumping Equipment

21,588

12.50%

0.50

1,349

23

24

Subtotal

\$ 19,350

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

41

Net Adjustment

\$ 280,893

42

43

SUPPORTING SCHEDULE

44

Testimony

45

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - B

Exhibit  
Rejoinder Schedule B-2  
Page 4.2  
Witness: Bourassa

Line

No.

1 A/D - Accrual True-up

2

3

4

Acct.

Original

5

No.

Description

Cost

Depr Rate

Years

A/D

6

354

Structures & Improvements

199,000

3.33%

0.50

3,313

7

396

Communication Equip

(3,555)

10.00%

0.50

(178)

8

9

10

11

12

13

14

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28

29

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32

33

34

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40

Net Adjustment

\$ 3,136

41

42

43

SUPPORTING SCHEDULE

44

Staff Adjustment #3

45

Exhibit  
Rejoinder Schedule B-2  
Page 4.3  
Witness: Bourassa

Line	No.	A/D - Plant Reclassification					
4	Acct.			Depr		Plant	A/D
5	No.	Description	Year	Rate	Years	Adjustment	Adjustment
6	354	Structures & Improvements	2009	3.33%	3.5	\$ (465,350)	\$ (54,237)
7	354	Structures & Improvements	2011	3.33%	1.5	-	-
8	354	Structures & Improvements	2012	3.33%	0.5	(59,760)	(995)
9	Subtotal					<b>\$ (525,110)</b>	<b>\$ (55,232)</b>
10	361	Collection Sewers Gravity	2009	2.00%	3.5	41,564	2,910
11	361	Collection Sewers Gravity	2011	2.00%	1.5	-	-
12	361	Collection Sewers Gravity	2012	2.00%	0.5	-	-
13	Subtotal					<b>\$ 41,564</b>	<b>\$ 2,910</b>
14	364	Flow Measuring Devices	2009	10.00%	3.5	36,618	12,816
15	364	Flow Measuring Devices	2011	10.00%	1.5	-	-
16	364	Flow Measuring Devices	2012	10.00%	0.5	-	-
17	Subtotal					<b>\$ 36,618</b>	<b>\$ 12,816</b>
18	371	Pumping Equipment	2009	12.50%	3.5	5,048	2,208
19	371	Pumping Equipment	2011	12.50%	1.5	6,000	1,125
20	371	Pumping Equipment	2012	12.50%	0.5	50,622	3,164
21	Subtotal					<b>\$ 61,670</b>	<b>\$ 6,497</b>
22	380	Treatment & Disposal Equipment	2009	5.00%	3.5	424,288	74,250
23	380	Treatment & Disposal Equipment	2011	5.00%	1.5	6,156	462
24	380	Treatment & Disposal Equipment	2012	5.00%	0.5	46,304	1,158
25	Subtotal					<b>\$ 476,749</b>	<b>\$ 75,870</b>
26	389	Other Sewer Plant & Equipment	2009	6.67%	3.5	(43,005)	(10,039)
27	389	Other Sewer Plant & Equipment	2011	6.67%	1.5	-	-
28	389	Other Sewer Plant & Equipment	2012	6.67%	0.5	-	-
29	Subtotal					<b>\$ (43,005)</b>	<b>\$ (10,039)</b>
30	393	Tools, Shop And Garage Equip	2009	5.00%	3.5	-	-
31	393	Tools, Shop And Garage Equip	2011	5.00%	1.5	-	-
32	393	Tools, Shop And Garage Equip	2012	5.00%	0.5	(15,681)	(392)
33	Subtotal					<b>\$ (15,681)</b>	<b>\$ (392)</b>
34	394	Laboratory Equip	2009	10.00%	3.5	836	293
35	394	Laboratory Equip	2011	10.00%	1.5	-	-
36	394	Laboratory Equip	2012	10.00%	0.5	-	-
37	Subtotal					<b>\$ 836</b>	<b>\$ 293</b>
38	395	Power Operated Equipment	2009	5.00%	3.5	-	-
39	395	Power Operated Equipment	2011	5.00%	1.5	-	-
40	395	Power Operated Equipment	2012	5.00%	0.5	(21,485)	(537)
41	Subtotal					<b>\$ (21,485)</b>	<b>\$ (537)</b>
42							
43							
44	Net Adjustment					<b>\$ 12,156</b>	<b>\$ 32,185</b>
45							
46	<b>SUPPORTING SCHEDULE</b>						
47	Staff Table 6 - Reclassification						
48	Testimony						
49							



Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - D

Exhibit  
Rejoinder Schedule B-2  
Page 4.4  
Witness: Bourassa

Line

No.

1 A/D Plant Not Used and Useful

2

3

4 Acct.

Original

5 No. Description

Cost

Depr Rate

Years

A/D

6 353 Land

(11,217)

0.00%

3.50

-

7 354 Structures & Improvements

(113,329)

3.33%

1.50

(5,661)

8

9

10

11

12

13

14

15

16

17

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27

28

29

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31

32

33

34

35

36

37

38

39

40 Net Adjustment

\$ (5,661)

41

42

43 SUPPORTING SCHEDULE

44 Staff Adjustment #6

45

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
**Test Year Ended December 31, 2012**  
**Original Cost Rate Base Proforma Adjustments**  
**Adjustment Number 2 - E**

Exhibit  
Rejoinder Schedule B-2  
Page 4.5  
Witness: Bourassa

Line

No.

1 A/D Duplicate Invoices

2

3

4

Acct.

5

No. Description

6

353 Land

Original

Cost

Depr Rate

Years

A/D

\$ (3,409)

0.00%

2.50

\$

-

7

355 Power Generation

(400)

5.00%

3.50

(70)

8

389 Other Sewer Plant & Equipment

(864)

6.67%

2.50

(144)

9

10

11

12

13

14

15

16

17

18

19

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21

22

23

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25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40 Net Adjustment

\$

(214)

41

42

43 SUPPORTING SCHEDULE

44 Staff Adjustment #7

45

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - F

Exhibit  
Rejoinder Schedule B-2  
Page 4.6  
Witness: Bourassa

Line

No.

Accumulated Depreciation - Plant Additions in Wrong Years

2

3

4

Acct.

5

No.

Description

6

351

Organization

7

352

Franchise

8

353

Land

9

354

Structures & Improvements

10

355

Power Generation

11

360

Collection Sewer Forced

12

361

Collection Sewers Gravity

13

362

Special Collecting Structures

14

363

Customer Services

15

364

Flow Measuring Devices

16

366

Reuse Services

17

367

Reuse Meters And Installation

18

370

Receiving Wells

19

371

Pumping Equipment

20

374

Reuse Distribution Reservoirs

21

375

Reuse Trans. and Dist. System

22

380

Treatment & Disposal Equipment

23

381

Plant Sewers

24

382

Outfall Sewer Lines

25

389

Other Sewer Plant & Equipment

26

390

Office Furniture & Equipment

27

390.1

Computers and Software

28

391

Transportation Equipment

29

392

Stores Equipment

30

393

Tools, Shop And Garage Equip

31

394

Laboratory Equip

32

395

Power Operated Equipment

33

396

Communication Equip

34

398

Other Tangible Plant

35

36

37

38

39

40

Plant Held for Future Use

41

TOTALS

42

43

44

SUPPORTING SCHEDULE

45

B-2, pages 4.1 through 4.3

46

B-2, pages 3.6 through 3.10

Depreciation

Correction

\$ -

-

-

6,478

-

407

-

-

-

23

-

-

-

-

803

-

-

-

-

-

-

-

-

-

-

-

-

-

-

\$ 7,711

**Exhibit  
Rejoinder Schedule B-2  
Page 4.7  
Witness: Bourassa**

45 <sup>1</sup> Post last test year end date

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - H

Exhibit  
Rejoinder Schedule B-2  
Page 4.8  
Witness: Bourassa

Line No.	Acct. No.	Description	Adjusted Original Cost	B-2 Adjustments	Rejoinder Adjusted Original Cost	Rejoinder Plant Per Reconstruction	Difference
1		<u>Reconciliation of A/D to A/D Reconstruction</u>					
2							
3							
4							
5	351	Organization	\$ -	\$ -	\$ -	\$ -	\$ -
6	352	Franchise	-	-	-	-	-
7	353	Land	-	-	-	-	-
8	354	Structures & Improvements	3,773,984	(61,189)	3,712,796	3,712,796	-
9	355	Power Generation	222,393	(70)	222,323	222,323	0
10	360	Collection Sewer Forced	(109,004)	-	(109,004)	(109,004)	-
11	361	Collection Sewers Gravity	5,222,855	3,317	5,226,172	5,226,172	-
12	362	Special Collecting Structures	-	-	-	-	-
13	363	Customer Services	2,092	-	2,092	2,092	-
14	364	Flow Measuring Devices	38,453	12,816	51,269	51,269	-
15	366	Reuse Services	825,859	23	825,882	825,882	-
16	367	Reuse Meters And Installation	21,945	-	21,945	21,945	-
17	370	Receiving Wells	297,089	-	297,089	297,089	-
18	371	Pumping Equipment	276,747	(2,521)	274,226	274,226	-
19	374	Reuse Distribution Reservoirs	8,088	-	8,088	8,088	-
20	375	Reuse Trans. and Dist. System	48,106	803	48,908	48,908	-
21	380	Treatment & Disposal Equipment	1,551,533	375,870	1,927,403	1,927,403	-
22	381	Plant Sewers	16,686	-	16,686	16,686	-
23	382	Outfall Sewer Lines	118,892	-	118,892	118,892	-
24	389	Other Sewer Plant & Equipment	234,145	(8,480)	225,666	225,666	-
25	390	Office Furniture & Equipment	122,510	-	122,510	122,510	-
26	390.1	Computers and Software	-	-	-	-	-
27	391	Transportation Equipment	33,497	(12,219)	21,278	17,770	(3,508)
28	392	Stores Equipment	3,681	-	3,681	3,681	-
29	393	Tools, Shop And Garage Equip	25,027	(392)	24,635	24,635	-
30	394	Laboratory Equip	135,667	293	135,959	135,959	-
31	395	Power Operated Equipment	702	(537)	165	165	-
32	396	Communication Equip	373,237	(178)	373,059	373,059	-
33	398	Other Tangible Plant	-	-	-	-	-
34							
35							
36							
37							
38							
39							
40		Plant Held for Future Use					-
41		TOTALS	\$ 13,244,186	\$ 307,535	\$ 13,551,721	\$ 13,548,214	\$ (3,508)
42							
43							
44		<u>SUPPORTING SCHEDULE</u>					
45		B-2, pages 4.1 through 4.7					
46		B-2, pages 3.9 through 3.13					

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - H

Exhibit  
Rejoinder Schedule B-2  
Page 4.9  
Witness: Bourassa

Line

No.

Half-year Depreciation on Post-Test Year Plant

Acct.

No. Description

Cost

Depreciation Rate

Years

Adjustment

354 Structures & Improvements

\$

1,081,134

3.33%

0.50

18,001

371 Pumping Equipment

21,588

12.50%

0.50

1,349

Total

\$ 19,350

Total Adjustment

\$ 19,350

SUPPORTING SCHEDULE

Schedule B-2, page 3.1

Testimony

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment 3

Exhibit  
Rejoinder Schedule B-2  
Page 5  
Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

Line  
No.  
1  
2  
3  
4  
5  
6  
7  
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	Gross CIAC	Accumulated Amortization
Computed balance at 12/31/2012	\$ 28,376,915	\$ 4,153,301
Adjusted balance at 12/31/2012	<u>\$ 28,470,485</u>	<u>\$ 4,446,775</u>
Increase (decrease)	\$ (93,570)	\$ (293,475)
Adjustment to CIAC/AA CIAC	<u>\$ (93,570)</u>	<u>\$ 293,475</u>
Label	3a	3b

SUPPORTING SCHEDULES  
E-1  
B-2, page 5.1 - 5.3

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
 Test Year Ended December 31, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Contributions-in-aid of Construction and Amortization  
 Adjustment 3

Exhibit  
 Rejoinder Schedule B-2  
 Page 5.1  
 Witness: Bourassa

Line  
 No.

Dep'r'n Rate	GL Account	9/30/2008	2008 Activity	Balance at 12/31/2008	2009 Activity	Balance at 12/31/2009
Collection Sewers Contributed	8600.2.0200.10.1615.0026	17,134,023	706,018	17,840,041	2,870,602	20,710,643
Amortization Accum Amort.	8600.2.0000.10.1641.0100	1,576,589	87,435	1,664,024	385,507	2,049,531
Services Contributed	8600.2.0200.10.1615.0016	1,509,762	140,400	1,650,162	698,724	2,348,886
Amortization Accum Amort.	8600.2.0000.10.1641.0100	495,529	7,900	503,429	39,990	543,419
Total CIAC Sewer		18,643,786		19,490,203		23,059,529
Total Accum Amort.		2,072,117		2,167,452		2,592,950



Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
 Test Year Ended December 31, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Contributions-in-aid of Construction and Amortization  
 Adjustment 3

Exhibit  
 Rejoinder Schedule B-2  
 Page 5.2  
 Witness: Bourassa

Line No.		2010 Activity	Balance at 12/31/2010	2011 Activity	Balance at 12/31/2011
1					
2					
3	Collection Sewers Contributed	1,079,042	21,789,685	3,955,923	25,745,608
4					
5					
6	Amortization	425,003		475,353	
7	Accum Amort.	425,003	2,474,534	475,353	2,949,887
8					
9	Services Contributed	15,630	2,364,516	34,990	2,399,506
10					
11					
12	Amortization	47,134		47,640	
13	Accum Amort.	47,134	590,553	47,640	638,193
14					
15	Total CIAC Sewer		24,154,201		28,145,114
16					
17					
18					
19	Total Accum Amort.		3,065,087		3,589,080
20					
21					
22					
23					
24					
25					

**Exhibit  
Rejoinder Schedule B-2  
Page 5.3  
Witness: Bourassa**

<b>Line</b>	<b>No.</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>18</b>	<b>19</b>	<b>20</b>	<b>21</b>	<b>22</b>	<b>23</b>	<b>24</b>	<b>25</b>
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Footnotes - See page 7.1

Service Company - Wastewater Division - Sub  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment 3

<sup>1</sup> Per adjusted book balances, land not included

Based on 2012 Tax Depreciation report (December 31, 2012) as amended

Unadjusted Cost at December 31, 2012 per federal and state tax depr. report

**Reconciling Items not on tax report:**

Land on Tax and not on included in adjusted plant balance

**FA Accrual on not on tax report**  
**Proposed Plant Retirement Direct**

Proposed Plant Retirement Direct  
Proposed Plant Retirements Reiminder

Proposed Plant Reurements Rejoinder	Post Test Year nplant
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100	100

Post Test Year Plant Retirement

### Plant Held for Future Use

3000 STEIN & FORBES AVENUE

Net Unadjusted Cost tax Basis at December 31, 2012

## Reductions

**Basis Reduction 2012 and Prior Years per federal and state tax depr. report**  
**Accumulated Depreciation 2012 and prior per federal and state tax depr. report**

Proposed Plant Retirements Direct

### Proposed Plant Retirements Rejoinder

Post Test Year retirement

Plant Held for Future Use

Net Reductions through December 31, 2012  
Net tax value of plant-in-service at December 31, 2012

<sup>3</sup> CIAC (Including impact of change to probability of realization)

Gross C/IAC per adjusted book balances

CIAC reductions/additions

**A.A per adjusted book balances**

Net C/IAC before unrealized A/IAC

Unrealized AIAC Component

A/IAC per adjusted book balances

Adjusted Net AIAC (see footnote 5 below)

Unrealized AIAC Component % (1-Realized AIAC Component)

Total realizable CIAC

<sup>4</sup> AIAC (including impact of change in probability of realization)

### AIAAC per adjusted book balances

Less: Unrealized AIAC (from Note 3, above)

Subtotal

**Meter and Service Line Installation Charges per adjusted book balances**

Total realizable AIAC

[illegible]

\$ 35,802,727			
	<u>(5,439,155)</u>	\$ 30,363,572	
\$ (5,439,155)			
\$ 42,019,564		\$ 29,413,695	
70.0%		\$ 59,777,267	
		\$ 42,019,564	
		\$ (29,413,695)	
		\$ 12,605,869	
		1,367,694	
		\$ 13,973,563	

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
Test Year Ended December 31, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 5

Exhibit  
Rejoinder Schedule B-2  
Page 7  
Witness: Bourassa

Line

No.

1 Customer Security Deposits  
2  
3 Adjustment to Customer Security Deposits based upon a 13 month average

\$ 8,334

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SUPPORTING SCHEDULE  
Staff Adjustment #10

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Computation of Working Capital

Exhibit  
Rejoinder Schedule B-5  
Page 1  
Witness: Bourassa

Line

No.

1	Cash Working Capital (1/8 of Allowance	
2	Operation and Maintenance Expense)	\$ 777,666
3	Pumping Power (1/24 of Pumping Power)	25,068
4	Purchased Water (1/24 of Purchased Water)	1,111
5	Prepaid Expenses	
6		
7		
8		
9	Total Working Capital Allowance	<u>\$ 803,845</u>
10		
11		
12	Working Capital Requested	<u>\$ -</u>
13		
14		
15		
16		
17		Rejoinder
18	Total Operating Expense	<u>Adjusted Test Year</u>
19	Less:	\$ 8,451,745
20	Income Tax	\$ 1,033,563
21	Property Tax	547,273
22	Depreciation	21,291
23	Purchased Water	26,656
24	Pumping Power	601,635
25	Allowable Expenses	<u>\$ 6,221,326</u>
26	1/8 of allowable expenses	<u>\$ 777,666</u>
27		
28		

SUPPORTING SCHEDULES:

E-1

RECAP SCHEDULES:

B-1

31  
32  
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**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Income Statement

Exhibit  
Rejoinder Schedule C-1  
Page 1  
Witness: Bourassa

Line No.		Adjusted Test Year Results	Adjustment	Rejoinder Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	<b>Revenues</b>					
2	Metered Water Revenues	\$ 9,853,383	\$ 1,193	\$ 9,854,576	\$ 503,628	\$ 10,358,204
3	Unmetered Water Revenues	-	-	-	-	-
4	Other Water Revenues	508,220	-	508,220	-	508,220
5		<u>\$ 10,361,603</u>	<u>\$ 1,193</u>	<u>\$ 10,362,796</u>	<u>\$ 503,628</u>	<u>\$ 10,866,424</u>
6	<b>Operating Expenses</b>					
7	Salaries and Wages	\$ 1,168,151	-	\$ 1,168,151	-	\$ 1,168,151
8	Purchased Water	26,656	-	26,656	-	26,656
9	Purchased Power	601,635	-	601,635	-	601,635
10	Sludge Removal Expense	234,893	3,423	238,316	-	238,316
11	Fuel for Power Production	-	-	-	-	-
12	Chemicals	357,986	-	357,986	-	357,986
13	Materials and Supplies	86,994	-	86,994	-	86,994
14	Management Services - US Liberty Water	1,469,058	(9,941)	1,459,117	-	1,459,117
15	Management Services - Corporate	698,951	-	698,951	-	698,951
16	Management Services - Other	-	-	-	-	-
17	Outside Services - Accounting	2,161	-	2,161	-	2,161
18	Outside Services - Engineering	-	-	-	-	-
19	Outside Services- Other	222,303	-	222,303	-	222,303
20	Outside Services- Legal	25,746	-	25,746	-	25,746
21	Water Testing	57,735	(27,078)	30,657	-	30,657
22	Rents - Office	40,007	-	40,007	-	40,007
23	Equipment Rental	3,076	-	3,076	-	3,076
24	Transportation Expenses	26,465	-	26,465	-	26,465
25	Insurance - General Liability	57,823	-	57,823	-	57,823
26	Insurance - Vehicle	11,506	-	11,506	-	11,506
27	Reg. Comm. Exp. - Other	14,189	-	14,189	-	14,189
28	Reg. Comm. Exp. - Rate Case	74,200	-	74,200	-	74,200
29	Miscellaneous Expense	77,293	3,498	80,791	-	80,791
30	Bad Debt Expense	45,215	(23,924)	21,291	-	21,291
31	Depreciation and Amortization Expense	1,598,765	24,122	1,622,887	-	1,622,887
32	Taxes Other Than Income	-	-	-	-	-
33	Property Taxes	576,026	(28,753)	547,273	8,888	556,161
34	Income Tax	1,013,153	20,411	1,033,563	189,437	1,223,000
35	<b>Total Operating Expenses</b>	<u>\$ 8,489,987</u>	<u>\$ (38,242)</u>	<u>\$ 8,451,745</u>	<u>\$ 198,324</u>	<u>\$ 8,650,069</u>
36	<b>Operating Income</b>	<u>\$ 1,871,616</u>	<u>\$ 39,435</u>	<u>\$ 1,911,051</u>	<u>\$ 305,304</u>	<u>\$ 2,216,355</u>
37	<b>Other Income (Expense)</b>					
38	Interest Income	-	-	-	-	-
39	Other income	-	-	-	-	-
40	Interest Expense	(259,945)	14,634	(245,311)	-	(245,311)
41	Other Expense	-	-	-	-	-
42		-	-	-	-	-
43	<b>Total Other Income (Expense)</b>	<u>\$ (259,945)</u>	<u>\$ 14,634</u>	<u>\$ (245,311)</u>	<u>\$ -</u>	<u>\$ (245,311)</u>
44	<b>Net Profit (Loss)</b>	<u><u>\$ 1,611,671</u></u>	<u><u>\$ 54,069</u></u>	<u><u>\$ 1,665,740</u></u>	<u><u>\$ 305,304</u></u>	<u><u>\$ 1,971,044</u></u>

SUPPORTING SCHEDULES:

C-1, page 2

E-2

RECAP SCHEDULES:

A-1

Exhibit  
Rejoinder Schedule C-1  
Page 2.1  
Witness: Bourassa

[illegible]



Litchfield Park Service Company - WW Division  
dba Liberty Utilities  
Test Year Ended December 31, 2012  
Income Statement

Exhibit  
Rejoinder Schedule C-1  
Page 2.2  
Witness: Bourassa

Line No.	Revenues	10 Interest Inch.	11 Income Taxes	12 Intentionally Left Blank	13 Intentionally Left Blank	14 Intentionally Left Blank	15 Intentionally Left Blank	16 Intentionally Left Blank	17 Intentionally Left Blank	Rejoinder Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues											
2	Metered Water Revenues											
3	Unmetered Water Revenues											
4	Other Water Revenues											
5												
6	Operating Expenses									508,220	503,628	10,358,204
7	Salaries and Wages									1,168,151		1,168,151
8	Purchased Water									26,856		26,856
9	Purchased Power									601,635		601,635
10	Sludge Removal Expense									238,316		238,316
11	Fuel for Power Production											
12	Chemicals											
13	Materials and Supplies									357,986		357,986
14	Management Services - US Liberty Water									86,994		86,994
15	Management Services - Corporate									1,459,117		1,459,117
16	Management Services - Other									698,951		698,951
17	Outside Services - Accounting											
18	Outside Services - Engineering											
19	Outside Services - Other									2,161		2,161
20	Outside Services - Legal											
21	Water Testing											
22	Rents - Office											
23	Equipment Rental									222,303		222,303
24	Transportation Expenses									25,746		25,746
25	Insurance - General Liability									30,657		30,657
26	Insurance - Vehicle									40,007		40,007
27	Reg. Comm. Exp. - Other									3,076		3,076
28	Reg. Comm. Exp. - Rate Case									26,465		26,465
29	Miscellaneous Expense									57,823		57,823
30	Bad Debt Expense									11,506		11,506
31	Depreciation and Amortization Expense									14,189		14,189
32	Taxes Other Than Income									74,200		74,200
33	Property Taxes									80,791		80,791
34	Income Tax									21,291		21,291
35	Total Operating Expenses		20,411							1,622,887		1,622,887
36	Operating Income		20,411							547,273	8,888	556,161
37	Other Income (Expense)		(20,411)							1,033,563	189,437	1,223,000
38	Interest Income									8,451,745	195,324	8,650,069
39	Other Income									1,911,051	305,304	2,216,355
40	Interest Expense											
41	Other Expense											
42		14,634								(245,311)		(245,311)
43	Total Other Income (Expense)											
44	Net Profit (Loss)	14,634								(245,311)		(245,311)
45		14,634	(20,411)							1,665,740	305,304	1,971,044

SUPPORTING SCHEDULES:  
C-2  
E-2

RECAP SCHEDULES:  
C-1, page 1

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustments to Revenues and Expenses

Exhibit  
Rejoinder Schedule C-2  
Page 1  
Witness: Bourassa

Line No.	<u>Adjustments to Revenues and Expenses</u>						<u>Subtotal</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	
	<u>Depreciation</u>	<u>Property Taxes</u>	<u>Water Testing</u>	<u>Corporate Allocation True-up</u>	<u>Corporate Allocation Expense</u>	<u>Interest on Customer Dep.</u>	
Revenues							-
Expenses	24,122	(28,753)	(23,668)	(7,420)	(2,521)	5,346	(32,894)
Operating Income	(24,122)	28,753	23,668	7,420	2,521	(5,346)	32,894
Interest Expense							-
Other Income / Expense							-
Net Income	(24,122)	28,753	23,668	7,420	2,521	(5,346)	32,894

  

	<u>Adjustments to Revenues and Expenses</u>						<u>Total</u>
	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	
	<u>Revenue Expense Annualization</u>	<u>Bad Debt Expense</u>	<u>Misc. Expense</u>	<u>Interest Synch.</u>	<u>Income Taxes</u>	<u>Intentionally Left Blank</u>	
Revenues	1,193						1,193
Expenses	(1,493)	(23,924)	(342)	-	20,411	-	(38,242)
Operating Income	2,686	23,924	342	-	(20,411)	-	39,435
Interest Expense	-			14,634			14,634
Other Income / Expense							-
Net Income	2,686	23,924	342	14,634	(20,411)	-	54,069

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
**Test Year Ended December 31, 2012**  
**Adjustments to Revenues and Expenses**  
**Adjustment Number 1**

Exhibit  
Rejoinder Schedule C-2  
Page 2  
Witness: Bourassa

Depreciation Expense

Line No.	Acct.	Description	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1					
2					
3					
4					
5	351	Organization	-	0.00%	-
6	352	Franchise	-	0.00%	-
7	353	Land	1,835,956	0.00%	-
8	354	Structures & Improvements	24,821,920	3.33%	826,570
9	355	Power Generation	602,932	5.00%	30,147
10	360	Collection Sewer Forced	1,162,597	2.00%	23,252
11	361	Collection Sewers Gravity	31,928,245	2.00%	638,565
12	362	Special Collecting Structures	-	2.00%	-
13	363	Customer Services	76,190	2.00%	1,524
14	364	Flow Measuring Devices	82,828	10.00%	8,283
15	366	Reuse Services	4,057,660	2.00%	81,153
16	367	Reuse Meters And Installation	44,753	8.33%	3,728
17	370	Receiving Wells	860,393	3.33%	28,651
18	371	Pumping Equipment	872,370	12.50%	109,046
19	374	Reuse Distribution Reservoirs	62,286	2.50%	1,557
20	375	Reuse Trans. and Dist. System	420,334	2.50%	10,508
21	380	Treatment & Disposal Equipment	5,362,219	5.00%	268,111
22	381	Plant Sewers	47,802	5.00%	2,390
23	382	Outfall Sewer Lines	343,681	3.33%	11,445
24	389	Other Sewer Plant & Equipment	833,823	6.67%	55,616
25	390	Office Furniture & Equipment	275,740	6.67%	18,392
26	390.1	Computers and Software	-	20.00%	-
27	391	Transportation Equipment	20,194	20.00%	4,039
28	392	Stores Equipment	8,968	4.00%	359
29	393	Tools, Shop And Garage Equip	129,950	5.00%	6,497
30	394	Laboratory Equip	187,184	10.00%	18,718
31	395	Power Operated Equipment	6,605	5.00%	330
32	396	Communication Equip	415,441	10.00%	41,544
33	398	Other Tangible Plant	-	10.00%	-
34			-		-
35					-
36					-
37					-
38					-
39		TOTALS	\$ 74,460,070		\$ 2,190,425
40					
41		Less: Amortization of Contributions	Gross CIAC	Amort. Rate	
42	361	Collection Sewers Gravity	\$ 25,745,608	2.0000%	\$ (514,912)
43	363	Customer Services	2,631,307	2.0000%	\$ (52,626)
44			\$ 28,376,915		
45		Total Depreciation Expense			\$ 1,622,887
46					
47		Adjusted Test Year Depreciation Expense			1,598,765
48					
49		Increase (decrease) in Depreciation Expense			24,122
50					
51		Adjustment to Revenues and/or Expenses			\$ 24,122
52					
53		<u>SUPPORTING SCHEDULE</u>			
54		B-2, page 3			

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 2

Exhibit  
Rejoinder Schedule C-2  
Page 3  
Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	\$ 10,362,796	\$ 10,362,796
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	20,725,592	20,725,592
4	Company Recommended Revenue	10,362,796	10,866,424
5	Subtotal (Line 4 + Line 5)	31,088,388	31,592,016
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	10,362,796	10,530,672
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	20,725,592	21,061,344
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	51,225	51,225
12	Full Cash Value (Line 9 + Line 10 - Line 11)	20,674,367	21,010,120
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	3,928,130	3,991,923
15	Composite Property Tax Rate - Obtained from ADOR	13.9322%	13.9322%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 547,273	\$ 556,161
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	\$ 547,273	
19	Adjusted Test Year Property Taxes	\$ 576,026	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	\$ (28,753)	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		\$ 556,161
23	Company Test Year Adjusted Property Tax Expense (Line 18)		\$ 547,273
24	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 8,888
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 8,888
27	Increase in Revenue Requirement		\$ 503,628
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.76474%
29			
30			
31			
32			
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39			
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**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 3

Exhibit  
Rejoinder Schedule C-2  
Page 4  
Witness: Bourassa

Water Testing Expense

Line  
No.

1

2

3

Sludge Removal Expense Adjustment

\$ 3,410

4

5

Water Testing Expense Adjustment

(27,078)

6

7

8

9

10

11

Increase(decrease) in Expense

\$ (23,668)

12

13

Adjustment to Revenue and/or Expense

\$ (23,668)

14

15

16

Reference

17

Testimony

18

19

20

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 4

Exhibit  
Rejoinder Schedule C-2  
Page 5  
Witness: Bourassa

Corporate Allocation True-Up

Line  
No.

1

2

3

4

Corporate Allocation True-Up Adjustment

\$ (7,420)

5

6

7

8

Total Adjustment to Management Services - US Liberty Water

\$ (7,420)

9

10

11

Adjustment to Revenue and/or Expense

\$ (7,420)

12

13

SUPPORTING SCHEDULES

14

Staff Adjustment #2

15

Testimony

16

17

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19

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**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 5

Exhibit  
Rejoinder Schedule C-2  
Page 6  
Witness: Bourassa

Corporate Allocation Expense Adjustment

Line  
No.

1		
2	Corporate Allocation Expense Adjustment	\$ (2,521)
3		
4		
5		
6	Total Adjustment to Management Services - US Liberty Water	<u>\$ (2,521)</u>
7		
8		
9	Adjustment to Revenue and/or Expense	<u>(2,521)</u>
10		
11	<u>Reference</u>	
12	Testimony	
13	Work papers	
14		
15		
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19		
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**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 6

Exhibit  
Rejoinder Schedule C-2  
Page 7  
Witness: Bourassa

Interest on Customer Security Deposits

Line  
No.

1		
2	Interest on Customer Deposits	\$ 5,346
3		
4		
5		
6	Adjustment to Miscellaneous Expense	<u>\$ 5,346</u>
7		
8		
9	Adjustment to Revenue and/or Expense	<u>5,346</u>
10		
11	<u>Reference</u>	
12	Staff Adjustment #4	
13	Testimony	
14		
15		
16		
17		
18		
19		
20		



Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 7

Exhibit  
Rejoinder Schedule C-2  
Page 8  
Witness: Bourassa

Revenue and Expense Annualization

Line  
No.

1		
2		
3	Revenue Annualization for Res Low Income	\$ 1,193
4		
5	Increase (decrease) in Revenues	<u>\$ 1,193</u>
6		
7	Annualized Purchase Power	\$ 54
8	Annualized Sudge Removal	13
9	Annualized Postage	(1,506)
10		
11	Increase (decrease) in Expenses	<u>\$ (1,439)</u>
12		
13		
14		
15		
16		
17		
18	<u>Reference</u>	
19	RUCO Adjustment #3	
20	Testimony	

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 8

Exhibit  
Rejoinder Schedule C-2  
Page 9  
Witness: Bourassa

Bad Debt Expense

Line  
No.

1		
2	Reclassify Bad Debt Expense to Water Division	(23,924)
3		
4		
5		
6	Adjustment to Bad Debt Expense	<u>\$ (23,924)</u>
7		
8		
9	Adjustment to Revenue and/or Expense	<u>\$ (23,924)</u>
10		
11	<u>Reference</u>	
12	RUCO Adjustment #11	
13		
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**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 9

Exhibit  
Rejoinder Schedule C-2  
Page 10  
Witness: Bourassa

Miscellaneous Expense

Line  
No.

1		
2	Miscellaneous Expense Adjustment	\$ (342)
3		
4		
5	Adjustment to Miscellaneous Expense	<u>\$ (342)</u>
6		
7		
8		
9	Adjustment to Revenue and/or Expense	<u>\$ (342)</u>
10		
11	<u>Reference</u>	
12	RUCO Adjustment 15	
13		
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**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
**Test Year Ended December 31, 2012**  
**Adjustment to Revenues and Expenses**  
**Adjustment Number 10**

Exhibit  
Rejoinder Schedule C-2  
Page 11  
Witness: Bourassa

Interest Synchronization

Line  
No.

1			
2			
3			
4	Fair Value Rate Base	\$ 24,153,028	
5	Weighted Cost of Debt	1.02%	
6	Interest Expense	\$ 245,311	
7			
8	Test Year Interest Expense	<u>\$ 259,945</u>	
9			
10	Increase (decrease) in Interest Expense	(14,634)	
11			
12			
13			
14	Adjustment to Revenue and/or Expense	<u>\$ 14,634</u>	

15				
16				
17	<u>Weighted Cost of Debt Computation</u>			
18	<u>Pro forma Capital Structure</u>			
19		<u>Percent</u>	<u>Cost</u>	<u>Weighted Cost</u>
20	Debt	15.87%	6.40%	1.02%
21	Equity	<u>84.13%</u>	<u>9.70%</u>	<u>8.16%</u>
22	Total	100.00%		9.18%

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Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities  
Test Year Ended December 31, 2012  
Adjustment to Revenues and/or Expenses  
Adjustment Number 11

Exhibit  
Rejoinder Schedule C-2  
Page 12  
Witness: Bourassa

Line

No.

1 Income Taxes

2

3

4 Computed Income Tax

5 Test Year Income tax Expense

6 Adjustment to Income Tax Expense

7

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13 SUPPORTING SCHEDULE

14 C-3, page 2

15

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	Test Year at Present Rates
\$	1,033,563
	-
\$	1,033,563

	Test Year at Proposed Rates
\$	1,223,000
	1,033,563
\$	189,437

**Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Computation of Gross Revenue Conversion Factor

Exhibit  
Rejoinder Schedule C-3  
Page 1  
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	38.290%
2		
3	Property Taxes	1.089%
4		
5		
6	Total Tax Percentage	39.379%
7		
8	Operating Income % = 100% - Tax Percentage	60.621%
9		
10		
11		
12		
13	<u>1</u> = Gross Revenue Conversion Factor	
14	Operating Income %	1.6496
15		
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24		
25	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
26	C-3, page 2	A-1
27		
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GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.3790%					
5	Subtotal (L3 - L4)	60.6210%					
6	Revenue Conversion Factor (L1 / L5)	1.649594					
<u>Calculation of Uncollectible Factor:</u>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	38.2900%					
9	One Minus Combined Income Tax Rate (L7 - L8)	61.7100%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	6.5000%					
14	Federal Taxable Income (L12 - L13)	93.5000%					
15	Applicable Federal Income Tax Rate (L55, Col E)	34.0000%					
16	Effective Federal Income Tax Rate (L14 x L15)	31.7900%					
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.2900%				
<u>Calculation of Effective Property Tax Factor</u>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	38.2900%					
20	One Minus Combined Income Tax Rate (L18-L19)	61.7100%					
21	Property Tax Factor	1.7647%					
22	Effective Property Tax Factor (L20*L21)		1.0890%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.3790%			
24	Required Operating Income	\$ 2,216,355					
25	Adjusted Test Year Operating Income (Loss)	\$ 1,911,051					
26	Required Increase in Operating Income (L24 - L25)		\$ 305,305				
27	Income Taxes on Recommended Revenue (Col. (E), L52)	\$ 1,223,000					
28	Income Taxes on Test Year Revenue (Col. (B), L54)	\$ 1,033,563					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 189,437				
30	Recommended Revenue Requirement	\$ 10,866,424					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue	\$ 556,161					
36	Property Tax on Test Year Revenue	\$ 547,273					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 8,888				
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ 503,629				

	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Income Tax:</u>						
39	Revenue	\$ 10,362,796	\$ 10,362,796	\$ 10,866,424	\$ 10,866,424	
40	Operating Expenses Excluding Income Taxes	\$ 7,418,182	\$ 7,418,182	\$ 7,427,069	\$ 7,427,069	
41	Synchronized Interest (L47)	\$ 245,311	\$ 245,311	\$ 245,311	\$ 245,311	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 2,699,304	\$ 2,699,304	\$ 3,194,045	\$ 3,194,045	
43	Arizona State Effective Income Tax Rate (see work papers)	6.5000%	6.5000%	6.5000%	6.5000%	
44	Arizona Income Tax (L42 x L43)	\$ 175,455	\$ 175,455	\$ 207,613	\$ 207,613	
45	Federal Taxable Income (L42- L44)	\$ 2,523,849	\$ 2,523,849	\$ 2,986,432	\$ 2,986,432	
46						
47	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	
48	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250	
49	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	
50	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650	
51	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ 744,209	\$ 744,209	\$ 901,487	\$ 901,487	
52						
53	Total Federal Income Tax	\$ 858,109	\$ 858,109	\$ 1,015,387	\$ 1,015,387	
54	Combined Federal and State Income Tax (L35 + L42)	\$ 1,033,563	\$ 1,033,563	\$ 1,223,000	\$ 1,223,000	
55	COMBINED Applicable Federal Income Tax Rate [Col. (D), L53 - Col. (A), L53] / [Col. (D), L45 - Col. (A), L45]			34.0000%		
56	WASTEWATER Applicable Federal Income Tax Rate [Col. (E), L53 - Col. (B), L53] / [Col. (E), L45 - Col. (B), L45]				34.0000%	
57	WATER Applicable Federal Income Tax Rate [Col. (F), L53 - Col. (C), L53] / [Col. (F), L45 - Col. (C), L45]					0.0000%

Calculation of Interest Synchronization:

58	Rate Base	\$ 24,153,028
59	Weighted Average Cost of Debt	1.0157%
60	Synchronized Interest (L45 X L46)	\$ 245,311

**Litchfield Park Service Company - Wastewater Division dba Liberty Utilities**  
**Revenue Summary**  
 With Annualized Revenues to Year End Number of Customers  
 Test Year Ended December 31, 2012

Exhibit  
 Rejoinder Schedule H-1  
 Page 1  
 Witness: Bourassa

Line No.	Customer Classification	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Sewer Revenues	Percent of Proposed Sewer Revenues
1	Residential	\$ 7,214,632	\$ 7,586,558	\$ 371,926	5.16%	69.62%	69.82%
2	Residential - Low Income	23,862	25,092	1,230	5.16%	0.23%	0.23%
3	Residential HOA 145	67,843	71,340	3,497	5.16%	0.65%	0.66%
4	Residential HOA 172	80,475	84,624	4,149	5.16%	0.78%	0.78%
5	Residential HOA 560	262,013	275,520	13,507	5.16%	2.53%	2.54%
6	Subtotal	\$ 7,648,824	\$ 8,043,134	\$ 394,310	5.16%	73.81%	74.02%
7							
8	Multi-Unit Housing						
9	Multi-Unit 3	\$ 10,423	\$ 10,958	\$ 536	5.14%	0.10%	0.10%
10	Multi-Unit 5	4,524	4,756	233	5.14%	0.04%	0.04%
11	Multi-Unit 6	6,948	7,306	357	5.14%	0.07%	0.07%
12	Multi-Unit 7	109,439	115,063	5,625	5.14%	1.06%	1.06%
13	Multi-Unit 8	6,948	7,306	357	5.14%	0.07%	0.07%
14	Multi-Unit 13	62,102	65,294	3,192	5.14%	0.60%	0.60%
15	Multi-Unit 15	267,082	280,809	13,727	5.14%	2.58%	2.58%
16	Multi-Unit 16	6,948	7,306	357	5.14%	0.07%	0.07%
17	Multi-Unit 17	7,383	7,762	379	5.14%	0.07%	0.07%
18	Multi-Unit 22	9,554	10,045	491	5.14%	0.09%	0.09%
19	Multi-Unit 43	18,674	19,634	960	5.14%	0.18%	0.18%
20	Multi-Unit 78	33,874	35,615	1,741	5.14%	0.33%	0.33%
21	Multi-Unit 84	36,480	38,354	1,875	5.14%	0.35%	0.35%
22	Multi-Unit 123	106,833	112,324	5,491	5.14%	1.03%	1.03%
23	Multi-Unit 282	122,467	128,761	6,294	5.14%	1.18%	1.18%
24							
25	Subtotal	\$ 809,679	\$ 851,293	\$ 41,614	5.14%	7.81%	7.83%
26							
27	Small Commercial	\$ 75,094	\$ 78,967	3,873	5.16%	0.72%	0.73%
28	Measured Service:						
29	Regular Domestic	\$ 438,612	\$ 461,199	22,587	5.15%	4.23%	4.24%
30	Restaurant, Motels, Grocery, Dry Cleaning	375,664	395,010	19,346	5.15%	3.63%	3.64%
31	Subtotal	\$ 814,276	\$ 856,209	\$ 41,933	5.15%	7.86%	7.88%
32							
33	Wigwam Resort - Per Room	\$ 143,312	\$ 150,678	\$ 7,366	5.14%	1.38%	1.39%
34	Wigwam Resort - Main	17,200	18,085	886	5.15%	0.17%	0.17%
35	Subtotal	\$ 160,512	\$ 168,763	\$ 8,251	5.14%	1.55%	1.55%
36							
37	Elementary Schools	\$ 70,174	\$ 73,788	\$ 3,614	5.15%	0.68%	0.68%
38	Middle and High Schools	55,039	57,873	2,834	5.15%	0.53%	0.53%
39	Community College	21,327	22,426	1,098	5.15%	0.21%	0.21%
40	Subtotal	\$ 146,540	\$ 154,087	\$ 7,546	5.15%	1.41%	1.42%
41							
42	Effluent Sales	72,967	72,967	-	0.00%	0.70%	0.67%
43	Total Revenues Before Revenues Annualization	\$ 9,727,893	\$ 10,225,420	\$ 497,527	5.11%	93.87%	94.10%



**Litchfield Park Service Company - Wastewater Division dba Liberty Utilities**  
**Revenue Summary**  
 With Annualized Revenues to Year End Number of Customers  
 Test Year Ended December 31, 2012

Exhibit  
 Rejoinder Schedule H-1  
 Page 2  
 Witness: Bourassa

<u>Line No.</u>	<u>Customer Classification</u>	<u>Present Revenues</u>	<u>Proposed Revenues</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Percent of Present Sewer Revenues</u>	<u>Percent of Proposed Sewer Revenues</u>
1							
2	<u>Revenue Annualization</u>						
3	Residential	\$ 128,534	\$ 135,161	\$ 6,626	5.16%	1.24%	1.24%
4							
5	Small Commercial	66	69	3	5.16%	0.00%	0.00%
6	Measured Service:						
7	Regular Domestic	(1,644)	(1,729)	(85)	5.15%	-0.02%	-0.02%
8	Restaurant, Motels, Grocery, Dry Cleaning	3,014	3,169	155	5.15%	0.03%	0.03%
9	Effluent Sales	(3,287)	(3,287)	-	0.00%	-0.03%	-0.03%
10	Subtotal Revenue Annualization	\$ 126,683	\$ 133,383	\$ 6,700	5.29%	1.22%	1.23%
11							
12	<u>Misc Service Revenues</u>						
13	Misc Revenues	\$ 463,236	\$ 463,236	\$ -	0.00%	4.47%	4.26%
14	Third Party Revenues (not on GL)	\$ 44,984	\$ 44,984	-	0.00%	0.43%	0.41%
15	Reconciling Amount to C-1	0	(815)	(815)	0.00%	0.00%	-0.01%
16	Totals	\$ 10,362,796	\$ 10,866,208	\$ 503,412	4.86%	100.00%	100.00%

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**Litchfield Park Service Company - Wastewater Division dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Analysis of Revenue by Detailed Class  
Special Rate Commercial Customers Pay Standard Commerical Rate

Rejoinder Schedule H-2  
Page 1  
Witness: Bourassa

Line No.	Customer Classification	Average Number of Customers at 12/31/2012	Average Water Use	Average Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	Residential	15,692	N/A	\$ 38.99	\$ 41.00	\$ 2.01	5.155%
2	Residential - Low Income						
3	Residential HOA 145	1	N/A	5,653.55	5,945.00	291.45	5.155%
4	Residential HOA 172	1	N/A	6,706.28	7,052.00	345.72	5.155%
5	Residential HOA 560	1	N/A	21,834.40	22,960.00	1,125.60	5.155%
6							
7	Multi-Unit Housing						
8	Multi-Unit 3	8	N/A	108.57	114.15	5.58	5.140%
9	Multi-Unit 5	2	N/A	180.95	190.25	9.30	5.140%
10	Multi-Unit 6	4	N/A	144.76	152.20	7.44	5.140%
11	Multi-Unit 7	36	N/A	253.33	266.35	13.02	5.140%
12	Multi-Unit 8	2	N/A	289.52	304.40	14.88	5.140%
13	Multi-Unit 13	11	N/A	470.47	494.65	24.18	5.140%
14	Multi-Unit 15	41	N/A	542.85	570.75	27.90	5.140%
15	Multi-Unit 16	1	N/A	579.04	608.80	29.76	5.140%
16	Multi-Unit 17	1	N/A	615.23	646.85	31.62	5.140%
17							
18	Multi-Unit 22	1	N/A	796.18	837.10	40.92	5.140%
19	Multi-Unit 43	1	N/A	1,556.17	1,636.15	79.98	5.140%
20	Multi-Unit 84	1	N/A	3,039.96	3,196.20	156.24	5.140%
21	Multi-Unit 78	1	N/A	2,822.82	2,967.90	145.08	5.140%
22	Multi-Unit 123	2	N/A	4,451.37	4,680.15	228.78	5.140%
23	Multi-Unit 282	1	N/A	10,205.58	10,730.10	524.52	5.140%
24							
25	Small Commercial	95	N/A	65.93	69.33	3.40	5.157%
26	Measured Service:						
27	Regular Domestic	169	55,837	216.71	227.87	11.16	5.150%
28	Restaurant, Motels, Grocery, Dry Cleaning	72	92,066	432.79	455.08	22.29	5.150%
29							
30	Wigwam Resort - Per Room	1	N/A	11,942.70	12,556.50	613.80	5.140%
31	Wigwam Resort - Main	1	N/A	1,433.30	1,507.11	73.81	5.150%
32							
33	Elementary Schools	6	N/A	975	1,025	50.19	5.150%
34	Middle and High Schools	4	N/A	1,147	1,206	59.05	5.150%
35	Community College	1	N/A	1,777	1,869	91.53	5.150%
36							
37	Effluent Sales (\$125 per acre foot)	0	2,964,633	1,127	1,127	-	0.000%
38	Effluent Sales (\$100 per acre foot)	4	4,321,326	1,340	1,340	-	0.000%
39	Effluent Sales (\$200 per acre foot)	0	2,308,900	1,593	1,593	-	0.000%
40	Total	<u>16,161</u>					
41							
42							

**Litchfield Park Service Company - Wastewater Division dba Liberty Utilities**  
**Present and Proposed Rates**  
**Test Year Ended December 31, 2012**

Exhibit  
Rejoinder Schedule H-3  
Page 1  
Witness: Bourassa

Line No.		Present Rates	Proposed Rates	Change	Percent Change
1					
2	<b><u>Customer Classification</u></b>				
3					
4	<b>Monthly Charge for:</b>				
5	Monthly Residential Service	\$ 38.99	\$ 41.00	\$ 2.01	5.16%
6					
7	Multi-Unit Housing - Monthly per Unit	\$ 36.19	\$ 38.05	\$ 1.86	5.14%
8					
9	Commercial:				
10	Small Commercial - Monthly Service	\$ 65.93	\$ 69.33	\$ 3.40	5.16%
11	Measured Service:				
12	Regular Domestic:				
13	Monthly Service Charge	\$ 36.91	\$ 38.81	\$ 1.90	5.15%
14	Commodity Charge per 1,000 gallons	\$ 3.22	\$ 3.39	\$ 0.17	
15					
16	Restaurant, Motels, Grocery Stores & Dry Cleaning Estab. <sup>1</sup>				
17	Monthly Service Charge	\$ 36.91	\$ 38.81	\$ 1.90	5.15%
18	Commodity Charge per 1,000 gallons	\$ 4.30	\$ 4.52	\$ 0.22	
19					
20	Wigwam Resort:				
21	Monthly Rate - Per Room	\$ 36.19	\$ 38.05	\$ 1.86	5.14%
22	Main Hotel Facilities - Per Month	\$ 1,433.30	\$ 1,507.11	\$ 73.81	5.15%
23					
24	Schools - Monthly Service Rates:				
25	Elementary Schools	\$ 974.64	\$ 1,024.83	\$ 50.19	5.15%
26	Middle Schools	\$ 1,146.64	\$ 1,205.69	\$ 59.05	5.15%
27	High Schools	\$ 1,146.64	\$ 1,205.69	\$ 59.05	5.15%
28	Community College	\$ 1,777.29	\$ 1,868.82	\$ 91.53	5.15%
29					
30	Effluent <sup>2</sup>	Market	Market		
31					
32	<sup>1</sup> Motels without restuarants charged multi-unit monthly rate.				
33	<sup>2</sup> Market Rate - Maximum effluent rate shall not exceed \$430 per acre foot based on a potable water rate of \$1.32 per thousand				
34	gallons.				
35					

**Litchfield Park Service Company - Wastewater Division dba Liberty Utilities**  
**Changes in Representative Rate Schedules**  
**Test Year Ended December 31, 2012**

Exhibit  
Rejoinder Schedule H-3  
Page 2  
Witness: Bourassa

Line No.		Present Rates	Proposed Rates
	<u>Other Service Charges</u>		
1	Establishment (Regular Hours) per Rule R14-2-603D (a)	\$ 20.00	\$ 20.00
2	Establishment (After Hours) per Rule R14-2-603D (a)	\$ 40.00	NT
3	Re-Establishment of Service per Rule R14-2-603D (a)	(b)	(b)
4	Reconnection (Regular Hours) per Rule R14-2-603D (a)	\$ 50.00	\$ 20.00
5	Reconnection (After Hours) per Rule R14-2-603D (a)	\$ 65.00	NT
6	NSF Check, per Rule R14-2-608E (a)	\$ 25.00	\$ 25.00
7	Deferred Payment, Per Month	1.50%	1.50%
8	Late Charge (c)	(c)	(c)
9	Service Calls - Per Hour/After Hours(e)	\$ 40.00	\$ 40.00
10	Deposit Requirement	(e)	(e)
11	Deposit Interest	3.50%	6.00%
12	Service Lateral Connection Charge- All Sizes	(f)	(f)
13	Main Extension Tariff, per Rule R14-2-606B	(g)	(g)
14			
15			
16			
17	(a) Charges are applicable to wastewater service.		
18	(b) Minimum charge times number of full months off the system. per Rule R14-2-603D.		
19	(c) Greater of \$5.00 or 1.5% of unpaid balance.		
20	(d) No charge for service calls during normal working hours.		
21	(e) After hours service charge is appropriate when it is at the customer's request or convenience. It compensates the utility		
22	for additional expenses incurred for providing after-hours services. It is appropriate to apply this charge for any utility		
23	service provided after hours at the customer's request or for the customer's convenience.		
24	(e) Per ACC Rules R14-2-603B <u>Residential</u> - two times the average bill.		
25	<u>Non-residential</u> - two and one-half times the average bill.		
26	(f) At cost. Customer/Developer shall install or cause to be installed all Service Laterals as a		
27	non-refundable contribution-in-aid of construction..		
28	(g) All Main Extensions shall be completed at cost and shall be treated as non-refundable		
29	contribution-in-aid of construction.		
30			
31			
32	IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM		
33	ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE		
34	TAX. PER COMMISSION RULE 14-2-409D(5).		
35			
36			
37			
38			
39			

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5  
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**  
7

8  
9 IN THE MATTER OF THE  
10 APPLICATION OF LITCHFIELD PARK  
SERVICE COMPANY, AN ARIZONA  
CORPORATION, FOR A  
11 DETERMINATION OF THE FAIR  
VALUE OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN  
12 ITS WATER RATES AND CHARGES  
FOR UTILITY SERVICE BASED  
13 THEREON.

DOCKET NO: W-01427A-13-0043

14 IN THE MATTER OF THE  
15 APPLICATION OF LITCHFIELD PARK  
SERVICE COMPANY, AN ARIZONA  
CORPORATION, FOR A  
16 DETERMINATION OF THE FAIR  
VALUE OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN  
17 ITS WASTEWATER RATES AND  
CHARGES FOR UTILITY SERVICE  
18 BASED THEREON.

DOCKET NO: SW-01428A-13-0042

19  
20  
21 **REJOINDER TESTIMONY OF**  
22 **GREG SORENSEN**

23  
24 **December 4, 2013**  
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I. INTRODUCTION AND PURPOSE OF TESTIMONY .....1  
II. ACHIEVEMENT PAY (RUCO ADJUSTMENT 14).....1

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1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q.** My name is Greg Sorensen. My business address is 12725 W. Indian School Road,  
3 Suite D-101, Avondale, AZ 85392.

4 **Q. DID YOU PREVIOUSLY PROVIDE TESTIMONY IN THIS CASE?**

5 **A.** Yes. My direct testimony was filed on February 28, 2013 with Liberty Utilities  
6 (Litchfield Park Water & Sewer) Corp.'s ("LPSCO" or the "Company") rate  
7 application, and my rebuttal testimony was filed on October 23, 2013.

8 **Q. WHAT IS THE PURPOSE OF YOUR REJOINDER TESTIMONY IN THIS**  
9 **PROCEEDING?**

10 **A.** To further support LPSCO's application for rate relief by responding to testimony  
11 by RUCO regarding Achievement Pay, RUCO Adjustment No. 14.

12 **II. ACHIEVEMENT PAY (RUCO ADJUSTMENT 14)**

13 **Q. DID YOU RESPOND TO MR. MEASE'S OPERATING INCOME**  
14 **ADJUSTMENT NO. 14 RELATED TO ACHIEVEMENT PAY IN YOUR**  
15 **REBUTTAL TESTIMONY?**

16 **A.** Yes, I did.

17 **Q. DID MR. MEASE MAKE ANY FURTHER ADJUSTMENT IN HIS**  
18 **SURREBUTTAL TESTIMONY RELATED TO ACHIEVEMENT PAY?**

19 **A.** No. RUCO continues to propose disallowing \$138,887 and \$128,034 (or  
20 50 percent) of achievement pay for LPSCO's water and wastewater divisions,  
21 respectively.<sup>1</sup>

22 **Q. DID RUCO MAKE ANY NEW ARGUMENTS IN SURREBUTTAL?**

23 **A.** Basically, no. Mr. Mease's surrebuttal testimony closely follows his direct  
24 testimony. As in direct, he offered no real material support for his adjustments.  
25

26 <sup>1</sup> Direct Testimony of Robert B. Mease at 23-24.

1     **Q.   DID RUCO REFUTE ANY OF THE ARGUMENTS MADE IN YOUR**  
2     **REBUTTAL TESTIMONY?**

3     A.   No. In rebuttal, I explained why achievement pay should not be a 50/50 sharing  
4     between the shareholders and the customers. I also explained why the test year  
5     amount is a perfectly valid number to use in setting rates. Further, I cited five  
6     Commission cases that illustrate how inconsistent RUCO has been with its  
7     recommendations. RUCO did not directly address any of my rebuttal testimony.

8     **Q.   DO YOU HAVE ANY FURTHER COMMENTS?**

9     A.   I don't believe RUCO's testimony does anything to refute my testimony that  
10    achievement pay is a known and measurable, recurring expense that benefits  
11    customers.

12   **Q.   DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?**

13   A.   Yes.

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6 **BEFORE THE ARIZONA CORPORATION COMMISSION**  
7

8  
9 IN THE MATTER OF THE  
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10 SERVICE COMPANY, AN ARIZONA  
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11 DETERMINATION OF THE FAIR  
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12 PROPERTY AND FOR INCREASES IN  
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13 FOR UTILITY SERVICE BASED  
THEREON.

DOCKET NO: W-01427A-13-0043

14 IN THE MATTER OF THE  
APPLICATION OF LITCHFIELD PARK  
15 SERVICE COMPANY, AN ARIZONA  
CORPORATION, FOR A  
16 DETERMINATION OF THE FAIR  
VALUE OF ITS UTILITY PLANTS AND  
17 PROPERTY AND FOR INCREASES IN  
ITS WASTEWATER RATES AND  
18 CHARGES FOR UTILITY SERVICE  
BASED THEREON.  
19

DOCKET NO: SW-01428A-13-0042

20  
21 **REJOINDER TESTIMONY OF**  
22 **THOMAS J. BOURASSA**

23 **COST OF CAPITAL**

24 **December 4, 2013**  
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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,  
4 Phoenix, Arizona 85029.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. On behalf of Applicant Liberty Utilities (Litchfield Park Water & Sewer) Corp.  
7 ("LPSCO" or the "Company").

8 **Q. ARE YOU THE SAME THOMAS J. BOURASSA THAT FILED DIRECT**  
9 **AND REBUTTAL TESTIMONY ON RATE BASE, INCOME STATEMENT,**  
10 **REVENUE REQUIREMENT AND RATE DESIGN IN THIS DOCKET?**

11 A. Yes.

12 **Q. DID YOU ALSO PREPARE DIRECT AND REBUTTAL TESTIMONY ON**  
13 **COST OF CAPITAL ON BEHALF OF LPSCO IN THIS CASE?**

14 A. Yes.

15 **Q. DID YOU ALSO PREPARE REJOINDER TESTIMONY ON INCOME**  
16 **STATEMENT, REVENUE REQUIREMENT AND RATE DESIGN IN THIS**  
17 **DOCKET?**

18 A. Yes, my rejoinder testimony on rate base, income statement, revenue requirement  
19 and rate design is being filed in a separate volume at the same time as this  
20 testimony. In this volume, I present my cost of capital rejoinder testimony.

21 **Q. HAVE YOU UPDATED YOUR COST OF CAPITAL ANALYSIS?**

22 A. No. I updated my cost of capital analysis on my rebuttal testimony filed on  
23 November 1, 2013. I updated my cost of capital in my rebuttal testimony because  
24 of the significant period of time between the Company's direct filing and its  
25 rebuttal filing. I did not feel the need to provide an additional update at this time.

26

1 Q. WHAT IS THE SCOPE OF THIS VOLUME OF YOUR REJOINDER  
2 TESTIMONY?

3 A. I will respond as appropriate to the surrebuttal testimonies of Mr. Cassidy on behalf  
4 of Staff and Mr. Mease on behalf of RUCO. Dr. Wendell Licon, PhD, from  
5 Arizona State University ("ASU"), also provides rejoinder testimony on cost of  
6 capital.

7 II. SUMMARY OF REJOINDER TESTIMONY AND THE PROPOSED COST  
8 OF CAPITAL FOR THE COMPANY

9 A. Summary of Company's Rejoinder Recommendation

10 Q. PLEASE SUMMARIZE YOUR RECOMMENDED REJOINDER COST OF  
11 DEBT AND EQUITY, AND YOUR RECOMMENDED REJOINDER RATE  
12 OF RETURN ON RATE BASE.

13 A. I continue to recommend a return on equity (ROE) of 9.7 percent based on my  
14 most recent cost of capital analysis. The results of my cost of capital analysis can  
15 be found in my rebuttal testimony.<sup>1</sup> The Company's recommended capital  
16 structure consists of 15.87 percent debt and 84.13 percent common equity as shown  
17 on Rejoinder Schedule D-1. Based on my 9.7 percent recommended cost of equity  
18 and a cost of debt of 6.4 percent, the Company's weighted cost of capital  
19 ("WACC") is 9.18 percent, as shown on Rejoinder Schedule D-1. The schedules  
20 containing my most recent cost of capital analysis are attached to this rejoinder  
21 testimony.

22

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<sup>1</sup> See Rebuttal Testimony of Thomas J. Bourassa – Cost of Capital at 2.

1           **B.     Summary of the Staff and RUCO Recommendations**

2     **Q.     PLEASE SUMMARIZE THE RESPECTIVE RECOMMENDATIONS OF**  
3           **STAFF AND RUCO FOR THE RATE OF RETURN ON FAIR VALUE**  
4           **RATE BASE.**

5     A.     At this stage of the proceeding Staff is recommending a capital structure consisting  
6           of 15.9 percent debt and 84.1 percent equity.<sup>2</sup> Staff determined a cost of equity of  
7           8.4 percent based on the average cost of equity produced by its DCF and CAPM  
8           models, a financial risk adjustment, and an economic assessment adjustment  
9           (EAA).<sup>3</sup> Staff determined the cost of debt to be 6.4 percent. Based on its capital  
10          structure recommendation, Staff determined the WACC for LPSCO to be  
11          8.1 percent.<sup>4</sup>

12           RUCO recommends an ROE of 9.2 percent based solely on the cost of  
13          equity approved in the Rio Rico Utilities rate case decided on July 30, 2013.<sup>5</sup>  
14          RUCO is recommending a capital structure of 15.87 percent debt and 85.13 percent  
15          equity, with a cost of debt of 6.4 percent.<sup>6</sup> Based on its recommended capital  
16          structure, RUCO determined the WACC for LPSCO to be 8.76 percent.<sup>7</sup>

17           Neither party made any change in their cost of capital positions in response  
18          to the Company's rebuttal testimony. I have illustrated the respective ROE  
19          recommendations below:

20  
21  
22  
23           <sup>2</sup> See Surrebuttal Testimony of John A. Cassidy at 15.

24           <sup>3</sup> *Id.*

25           <sup>4</sup> *Id.*

26           <sup>5</sup> See Surrebuttal Testimony of Robert B. Mease at 28-29.

<sup>6</sup> See RUCO Surrebuttal Schedule RBM-32.

<sup>7</sup> *Id.*

<u>Party</u>	<u>DCF</u>	<u>CAPM</u>	<u>Build- Up</u>	<u>Average</u>	<u>Financial Risk/EAA /SC</u>	<u>Adjusted</u>	<u>Recommended</u>
LPSCO	9.0%	9.9%	10.6%	9.8%	-.1% <sup>8</sup>	9.7%	9.7%
Staff	8.7%	8.1%	N/A	8.4%	0% <sup>9</sup>	8.4%	8.4%
RUCO	N/A	N/A	N/A	N/A	N/A	N/A	9.2%

**C. Response to the Cost of Equity Recommendations of Staff and RUCO**

**1. Comparable Earnings Standard**

**Q. IN YOUR REBUTTAL YOU ARGUED THAT THE STAFF AND RUCO ROEs FAIL TO MEET THE COMPARABLE EARNINGS STANDARD AS SET FORTH IN HOPE AND BLUEFIELD CASES. HOW DID THEY RESPOND?**

**A.** They didn't. Neither party took the opportunity to explain why their recommended ROEs of 8.4 percent and 9.2 percent, respectively, meet the comparable earnings standard as set forth in *Hope* and *Bluefield*. I suspect both parties' witnesses have remained silent because they cannot respond as their recommendations can't meet this standard.

**Q. PERHAPS THEY DON'T SEE A NEED TO DEFEND THEIR RECOMMENDATIONS?**

**A.** That's possible, but when:

- 1) The average water proxy group projected ROE is 9.9 percent;
- 2) The currently authorized water proxy group ROE is 10.03 percent;

<sup>8</sup> LPSCO recommends a 60 basis point downward adjustment for financial risk and a 50 basis point upward adjustment for company specific risk.

<sup>9</sup> Staff recommends a 60 basis point downward adjustment for financial risk and a 60 basis point upward economic assessment adjustment.

- 3) The NYU Stern School equity-to-debt cost analysis indicates a 10.7 percent ROE;
- 4) The Commission precedent equity-to-debt cost analysis indicates a 10.1 percent ROE;
- 5) A dividend payout analysis based on equity capital indicates an ROE of 11.42 percent;
- 6) A dividend payout analysis based on Staff recommended rate base indicates an ROE of 9.82 percent; and
- 7) A dividend payout analysis based on the RUCO recommended rate base indicates an ROE of 9.93 percent.

I could not justify an 8.4 or 9.2 percent ROE in light of these undisputed facts. In fact, my 9.7 ROE is really too low. To illustrate further, the mid-point of the range of comparable returns listed above is 10.6 percent, 220 basis points higher than Staff's anemic ROE, 140 basis points higher than RUCO's, and 90 basis points higher than my ROE. Even the lowest of these comparable measures is 62 basis point higher than RUCO and over 140 basis points higher than Staff's recommended ROE, and higher than my ROE. As I have said before, the parties can argue about the inputs and application of the models. Still, at the end of the analysis, every recommendation must not violate the comparable earnings test or reasonable common sense.

**Q. WHY WOULD YOU RECOMMEND AN ROE THAT YOU BELIEVE IT TOO LOW?**

**A.** Because I am experienced at testifying before the ACC. Over the years, I have modified several things I do to make a cost of equity recommendation. In an effort to fight less, I now gravitate towards the lower end of the range of my analysis. I would hope the Commission would see that my client and I are trying to be reasonable by seeking an ROE of only 9.7 percent when we could easily justify a

1 higher ROE by just looking at the comparable factors I have already discussed in  
2 this testimony.

3 **Q. BUT YOU ARE STILL FIGHTING OVER THE ROE WITH THE OTHER**  
4 **PARTIES?**

5 A. That's because, at least with respect to Staff in this case, they refuse to do anything  
6 but run their models and spit out results. Staff's ROE is not the result of the  
7 exercise of reasoned analysis and the application of sound judgment. As long as  
8 the computer does the thinking, it appears we will battle over this issue no matter  
9 how reasonable my client and I try to be.

10 **D. Responses to Staff's Criticisms of the Company's Cost of Capital**  
11 **Analysis**

12 1. Small Company Risk Premium

13 **Q. TO REBUT ANY IMPACT OF SIZE, MR. CASSIDY REFERENCES A**  
14 **STUDY BY ANNIE WONG (AT PAGE 3). ARE YOU FAMILIAR WITH**  
15 **THIS STUDY?**

16 A. I sure am. Over the past 10 plus years or so Staff's witnesses have repeatedly  
17 trotted out this one study to refute the notion that utilities like LPSCO are more  
18 risky than the proxy companies because they are considerably and significantly  
19 smaller. Mr. Cassidy has done so at least one other time, and in that case,  
20 he admitted on cross examination that he had never read Ms. Wong's actual paper,  
21 wasn't even sure what kind of paper it was (he thought it might be her doctoral  
22 thesis), and did not know whether it had ever been published.<sup>10</sup> Mr. Cassidy also  
23 stated that he was unaware of any other person that had published a similar  
24

25  
26 <sup>10</sup> See Transcript from March 28, 2013 hearing at 237:19 – 239:8, *Rio Rico Utilities, Inc.*, Docket No. WS-02676A-12-0196.



1 conclusion.<sup>11</sup> I do not know what else Ms. Wong has done since, but I suspect this  
2 item of Ms. Wong's work, and its questionable conclusions, have found no greater  
3 audience than at public utility commissions where some party is trying to justify a  
4 unreasonably low ROE for a utility that is not publicly traded.

5 **Q. HAS MS. WONG DISPROVED THE EXISTENCE OF A SIZE PREMIUM**  
6 **FOR SMALL UTILITY STOCKS?**

7 A. No. Actually, Ms. Wong's study has been criticized soundly: "[her] weak evidence  
8 provides little support for a small firm effect existing or not existing in either the  
9 industrial or the utility sector."<sup>12</sup> Dr. Zepp found that Ms. Wong's empirical results  
10 were not strong enough to conclude that beta risk of utilities is unrelated to size;  
11 he found that her use of monthly, weekly, and daily data may be the cause of her  
12 inability to find a relationship; and he found other studies that show trading  
13 infrequency to be a powerful cause of bias in beta risk when time intervals of a  
14 month or less are used to estimate beta's for small stocks.<sup>13</sup> The studies relied on  
15 in Mr. Zepp's published paper found, "when a stock is thinly traded, its stock price  
16 does not reflect the movement of the market, which drives down the covariance  
17 with the market and creates an artificially low beta estimate."<sup>14</sup> Thus, Ms. Wong's  
18 weak results were due to a flawed analysis.

19 **Q. DON'T PASCHALL AND HAWKINS (QUOTED BY MR. CASSIDY ON**  
20 **PAGE 3) SUPPORT MS. WONG AND MR. CASSIDY'S VIEW THAT**  
21 **SMALLER WATER UTILITIES ARE NOT MORE RISKY THAN**  
22 **LARGER WATER UTILITIES?**

23  
24 <sup>11</sup> *Id.* at 238:13-20.

25 <sup>12</sup> Thomas M. Zepp, "Utility Stocks and the Size Effect – Revisited", *The Quarterly Review Economics*  
26 *and Finance*, Vol. 43, Issue 3, Autumn 2003, 578-582.

<sup>13</sup> *Id.* at 579.

<sup>14</sup> *Id.*

1 A. No, the authors do not argue against a small company risk premium for small water  
2 utilities, rather, they merely suggest the small company risk premium may be lower  
3 than the average company for the reasons they state.<sup>15</sup> A very low small company  
4 risk premium for LPSCO compared to the average company is exactly what I  
5 recommend in this case.<sup>16</sup>

6 According to the empirical financial market data provided by Morningstar,  
7 the indicated size premium for a company the size of LPSCO would be  
8 8.90 percent over the average company the size of LPSCO.<sup>17</sup> My size premium  
9 analysis on Rejoinder Schedule D-4.22 indicates a size premium in the range of  
10 99 to 372 basis points over the water proxy group. My recommended small  
11 company risk premium is just 50 basis points, which is about 6 percent of the  
12 indicated small company risk premium for an average company the size of LPSCO,  
13 and well below the bottom end of the range of the indicated additional risk  
14 premium over my water proxy group. Therefore, I think Paschall and Hawkins  
15 support my analysis not Mr. Cassidy's. That's true with respect to both, whether  
16 size matters, and, whether my recommended 9.7 is conservative.

17 **Q. DO YOU FIND ANY FURTHER SUPPORT IN PASCHALL AND**  
18 **HAWKINS?**

19 A. Yes, as a matter of fact, I do. One of the main points of the authors' discussion  
20 was that the use of small company risk premium without consideration of the  
21 specific risks of the subject company could be subject to challenge. Recognition of  
22 the additional risk associated with an investment in LPSCO compared to his water  
23 proxy group is something Mr. Cassidy fails to do. That said, a great deal of my

24 <sup>15</sup> Micheal A. Paschall and George B. Hawkins, "Do Smaller Companies Warrant a Higher Discount Rate  
25 for Risk": The Size Effect' Debate," *CCH Business Valuation Alert*, Vol 1, Issue No. 2, December 1999.

26 <sup>16</sup> See Direct Testimony of Thomas J. Bourassa – Cost of Capital ("Bourassa COC Dt.") at 45.

<sup>17</sup> Morningstar *Ibbotson SBI 2013 Valuation Yearbook*. Table 7-8, Decile 10y.

1 direct testimony and parts of my rebuttal testimony were devoted to comparing the  
2 differences between the large publicly traded company and LPSCO that would  
3 reflect differences in risk, which is exactly what the authors would recommend. As  
4 Paschall and Hawkins conclude:

5  
6 Failing to consider the additional risk associated with most  
7 smaller companies, however, is to fail to acknowledge reality.  
8 Measured properly, small company stocks have proven to be  
9 more risky over a long period of time than have larger  
10 company stock. This makes sense due to the various  
advantages that larger companies have over smaller  
companies. Investors looking to purchase a riskier company  
will require a greater return on investment to compensate for  
that risk.<sup>18</sup>

11 **Q. DO PASCHALL AND HAWKINS REFERENCE ANY OTHER STUDIES**  
12 **TO SUPPORT THE PROPOSITION THAT A PRIVATELY HELD SMALL**  
13 **WATER UTILITY HAS THE SAME RISK AS A LARGE PUBLICLY**  
14 **TRADED UTILITY?**

15 **A. No.**

16 **Q. WHAT ABOUT THE QUOTE FROM THE *DUFF & PHELPS* RISK**  
17 **PREMIUM STUDY (ON PAGE 4 OF MR. CASSIDY'S SURREBUTTAL)?**  
18 **DOES IT SUPPORT THE VIEW THAT SMALLER WATER UTILITIES**  
19 **ARE NOT MORE RISKY THAN LARGER WATER UTILITIES?**

20 **A. No.** The authors of the *Duff & Phelps* risk premium study admit they do not know  
21 whether size is just a proxy for several other unknown variables when it comes to  
22 the small firm effect. The authors then speculate on a number of possibilities for  
23 these unknown factors including potential competition, which Mr. Cassidy appears  
24 to emphasize to make his point that LPSCO, as a utility, does not compete with  
25

26 <sup>18</sup> Paschall, *supra*.

1 other utilities to provide utility service in its service territory. From this he leaps to  
2 the conclusion that a size premium is not warranted.

3 But, the authors also suggest that lack of liquidity may one of the unknown  
4 factors. This makes sense as risk-averse investors require higher expected returns  
5 if the asset's liquidity risk is greater.<sup>19</sup> Since LPSCO is not publicly traded, an  
6 investment in LPSCO is illiquid compared to an investment in a publicly traded  
7 company and therefore has greater liquidity risk and a higher cost of capital.<sup>20</sup>

8 As noted in Morningstar, when referring to its published size premiums,  
9 liquidity, and non-publicly traded firms:

10 ...Even though liquidity is not directly observable,  
11 capitalization is, thus the size premium can serve as a partial  
12 measure of the increased cost of capital of a less liquid  
stock...<sup>21</sup>

13 ...While the results reflected by the different size decile  
14 portfolios reflect differences in the size of the company, all the  
15 deciles are comprised of relatively liquid stock shares. When  
16 applied to a privately held company, or to any relatively less  
liquid shares, the cost of capital would be higher...<sup>22</sup>

17 In other words, the size premiums published by Morningstar alone may not be  
18 enough to recognize the additional liquidity risk of a privately held company. As I  
19 mentioned earlier, the indicated size premium based upon the Morningstar data  
20 should be 8.9 percent over an average company the size of LPSCO and my risk  
21 premium analysis suggests up to 3.72 percent - both of which should be higher  
22

23 <sup>19</sup> Yakov Amihud and Haim Mendelson, "Asset Pricing and the Bid-Ask Spread." Journal of Financial  
24 Economics 17, 1986. Viral Acharya and Lasse Heje Pedersen, "Asset pricing with liquidity risk." Journal  
of Financial Economics 77, 2005.

25 <sup>20</sup> See Rebuttal Testimony of Wendell Licon, PhD, CFA ("Licon Rb.") at 10-11.

26 <sup>21</sup> Morningstar at 85.

<sup>22</sup> *Id.* at 105.

1 according to Morningstar if liquidity is a factor. My recommended size premium  
2 of just 50 basis points is extremely conservative by these standards, just like my  
3 overall ROE of 9.7 percent.

4 **Q. ARE THERE ANY STUDIES THAT CONTRADICT MS. WONG'S**  
5 **FINDINGS?**

6 A. Yes, besides basic business sense, I am aware of two other studies that support the  
7 conclusion that small utilities are more risky than larger utilities. The first, a study  
8 conducted by the California Public Utilities Commission ("CPUC") that looked at  
9 58 water utilities.<sup>23</sup> Based on that study, the CPUC Staff concluded that smaller  
10 water utilities are more risky and required higher equity returns than larger water  
11 utilities. This position was adopted by the CPUC.<sup>24</sup> A second study, conducted by  
12 Dr. Zepp, showed that on average, the smaller water utilities in his study had a  
13 99 basis point higher cost of equity.<sup>25</sup>

14 2. Choice of Risk Free Rate for CAPM and Build-Up Method

15 **Q. PLEASE RESPOND TO MR. CASSIDY'S TESTIMONY (ON PAGE 8)**  
16 **THAT YOU ARE INCONSISTENT IN YOUR CHOICE FOR THE RISK**  
17 **FREE RATE FOR THE CAPM AND THE BUILD-UP METHOD.**

18 A. Mr. Cassidy is simply wrong because I have not been inconsistent at all. I chose  
19 the 20-year U.S. Treasury rate for the Build-up Method because it's consistent with  
20 the risk premium data provided by Duff & Phelps. The authors explain that many  
21 valuation analysts select a 20-year U.S. Treasury yield as a proxy for the risk free  
22 rate.<sup>26</sup> I could just as well have used a 30 year U.S. Treasury bond rate for the  
23

24 <sup>23</sup> *Id.* at 580.

25 <sup>24</sup> Zepp, *supra*.

26 <sup>25</sup> *Id.*

<sup>26</sup> *Risk Premium Report 2013*, Duff & Phelps, at 11.

1 Build-up method since it is the more theoretically correct proxy for the risk-free  
2 rate for a business. Had I used the 30 year U.S. Treasury bond rate in the Build-up  
3 Method, my Build-up Method results would have been 30 basis points higher, not  
4 lower. In any event, I am confident the authors would agree that the use of long-  
5 term risk free rate, whether it be a 20-year or 30-year U.S. Treasury, is most the  
6 appropriate for computing discount rates for business firms.<sup>27</sup>

7 **Q. ARE THE CAPM AND THE BUILD METHOD THE SAME?**

8 A. No. The CAPM and my Build-up Method are different approaches to estimating  
9 the cost of capital. The use of different inputs doesn't make the two approaches  
10 necessarily inconsistent. The Build-Up method is a risk premium model like the  
11 CAPM, but unlike the CAPM, the Build-up Method does not suffer from problems  
12 in the measurement of beta or fail to account for the higher returns on small  
13 company stocks like the CAPM.<sup>28</sup> The mid-point of my Build-up Method  
14 estimates of 10.6 percent is 250 basis points greater than Mr. Cassidy's CAPM of  
15 estimate of 8.1 percent and 220 basis points greater than Mr. Cassidy's  
16 recommended cost of equity of 8.4 percent.<sup>29</sup> It is also 90 points higher than my  
17 recommended ROE in this case.

18 I would also like to point out that I have chosen different inputs for the  
19 Buildup Method, in part, to address Staff's past criticisms of my inputs.  
20 For example, Mr. Cassidy advocates a spot interest rate for the risk free rate stating  
21 that my use of forecast rates overstates the cost of capital.<sup>30</sup> I use a spot interest  
22 rate for the Build-Up Method rather than an average spot and forecast rate as I do  
23

24 <sup>27</sup> *Id.*

25 <sup>28</sup> Bourassa COC Dt. at 36-37, 42.

26 <sup>29</sup> See LPSCO COC Schedule D-4.1 and Staff Direct Schedule JAC-3.

<sup>30</sup> See Direct Testimony of John A. Cassidy at 45.

1 in the CAPM. I would expect Mr. Cassidy to agree that my Build-Up Method  
2 estimates are not overstated as a result. Further, I would expect Mr. Cassidy to  
3 agree that my Build-Up method is understated because I use a 20-year  
4 U.S. Treasury rate rather than a 30-year U.S. Treasury rate. But he has not  
5 addressed the results so much as sought to use my Build Up Method in an attempt  
6 to undermine Dr. Licon. I think this attempt failed.

7 3. Current Market Risk Premium Estimate

8 **Q. PLEASE RESPOND TO MR. CASSIDY'S TESTIMONY (ON PAGE 10)**  
9 **THAT YOUR USE OF A 4-YEAR PERIOD TO COMPUTE THE CURRENT**  
10 **MARKET RISK PREMIUM FOR THE CAPM IS CONTRARY TO**  
11 **DR. LICON'S ADVOCACY FOR A 3-YEAR PERIOD.**

12 A. Dr. Licon's argument for the use of a 3-year period is well-founded.<sup>31</sup>  
13 Nevertheless, in past cases I have adopted the Staff approach and used a 4-year  
14 period in order to help to eliminate disputes with Staff and did the same in this  
15 case. It is one of many compromises I have made over the years and it is, frankly,  
16 pretty desperate to now use my compromise with Staff against us in this case.  
17 My compromise does not change the financial analysis undertaken by Dr. Licon.

18 4. Financial Risk Adjustment (Hamada Method)

19 **Q. PLEASE RESPOND TO MR. CASSIDY'S TESTIMONY (ON PAGE 12)**  
20 **THAT THE STAFF AND COMPANY COMPUTED RELEVATED BETAS**  
21 **ARE THE SAME AT 0.63.**

22 A. Mr. Cassidy's relevered beta adjustment should not be the same as the Company's.  
23 Nor should his resulting downward 60 basis point financial risk adjustment be the  
24 same as the Company's. Mr. Cassidy's proxy group is different than the  
25

26 <sup>31</sup> See Licon Rb. at 7; Rejoinder Testimony of Windell Licon, PhD, CFA at 13-14.

1 Company's (I do not include York Water (YORW)). Based on Mr. Cassidy's  
2 proxy group, the relevered beta (based on market values of debt and equity)  
3 should be 0.67, not 0.63, and his financial risk adjustment should be no more  
4 than 30 basis points, not 60 basis points. I have included as Exhibit **TJB-**  
5 **COC-RJ1** modified versions of the Staff surrebuttal schedules JAC-11, JAC-  
6 12, and JAC-13 showing the computations of Staff's relevered beta and  
7 financial risk adjustment using market values. Using market values, rather than  
8 book values does make a difference in the financial risk adjustment estimation.  
9 Mr. Cassidy has overstated his financial risk adjustment by using book values.

10 **Q. DOES STAFF'S USE OF A 40 PERCENT DEBT AND 60 PERCENT BOOK**  
11 **DEBT-TO-EQUITY CAPITAL STRUCTURE "CURE" THE PROBLEM**  
12 **WITH USING BOOK VALUES IN THE HAMADA AS HE CLAIMS (ON**  
13 **PAGE 14)?**

14 **A.** No. The modified schedules shown in **Exhibit TJB-COC-RJ1** reflect market  
15 values of 23 percent debt and 77 percent equity, which are the market value  
16 percentages derived from a 40 percent debt and 60 percent equity book capital  
17 structure. Mr. Cassidy's relevered beta is higher and the financial risk adjustment  
18 is lower when using market values rate than book values and the use of a 40  
19 percent debt and 60 percent equity book capital structure does not cure  
20 Mr. Cassidy's error.

21 **Q. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY ON COST**  
22 **OF CAPITAL?**

23 **A.** Yes.  
24  
25  
26



**EXHIBIT**  
**TJB-COC-RJ1**

Litchfield Park Service Company Cost of Capital Calculation  
Calculation of Unlevered Beta  
Sample Water Utilities

$$\beta_{UL} = \frac{\beta_L}{1 + \frac{BD}{EC} (1 - t)}$$

Where :

$\beta_{UL}$  = unlevered beta  
 $\beta_L$  = levered beta  
 $BD$  = book debt  
 $EC$  = equity capital  
 $t$  = tax rate

Line No.	[A]	[B] (Unadjusted Beta) Value Line Levered Raw Beta $\beta_L$	[C] Tax Rate $t$	[D] MV Debt BD	[E] MV Equity Cap EC	[F] $\beta_{UL} = \frac{\beta_L}{1 + \frac{BD}{EC} (1 - t)}$ Unlevered Raw Beta
1	American States Water	0.52	39.9%	23.8%	76.2%	0.44
2	California Water	0.45	30.5%	30.9%	69.1%	0.34
3	Aqua America	0.37	39.0%	25.6%	74.4%	0.31
4	Connecticut Water	0.60	32.0%	33.8%	66.2%	0.44
5	Middlesex Water	0.52	33.9%	28.6%	71.4%	0.41
6	SIW Corp	0.75	41.1%	36.8%	63.2%	0.56
7	York Water	0.52	37.6%	24.2%	75.8%	0.44
8						
9	Sample Water Utilities	0.53	36.3%	23.2%	76.8%	0.45
10						
11						
12						
13						
14						
15						
16						

Market Value Conversion				
Book Value	M/B Ratio	MV	%	
LT Debt \$	0.40	\$ 0.40	23.2%	
Equity \$	0.60	\$ 1.32	76.8%	
	\$ 1.00	\$ 1.72		

Source: Value Line  
Supporting Schedules: Schedule JAC-1, Schedule JAC-3

Litchfield Park Service Company Cost of Capital Calculation  
Calculation of Relevered Beta  
Sample Water Utilities

$$\beta_{RL} = \beta_{UL} (1 + (1 - t) BD / EC)$$

Where :

$\beta_{RL}$  = relevered beta

$\beta_{UL}$  = unlevered beta

$t$  = tax rate

$BD$  = book debt

$EC$  = equity capital

[A]	[B]	[C]	[D]	[E]	[F]	[G]
	Unlevered Raw Beta $\beta_{UL}$	MV Book Debt $BD$	MV Equity Capital $EC$	Tax Rate $t$	Relevered Raw Beta $b_{RL} = \beta_{UL} (1 + (1 - t) BD / EC)$ $\beta_{RL}$	Adjusted Relevered Beta $.35 + .67(Raw\ Beta)$ $\beta_{RL}$
Litchfield Park Service Company Cost of C	0.45	0.079	0.921	36.3%	0.47	0.67

Sources: Schedule C3 of the Company's application  
Supporting Schedules: Schedule JAC-9 and JAC-10

Litchfield Park Service Company Cost of Capital Calculation  
Financial Risk Adjustment  
Sample Water Companies

	[A]	[B]	[C]	[D]	[E]			
	<b>CAPM Method</b>	<b>Rf</b>	<b>+</b>	<b><math>\beta</math></b>	<b>x</b>	<b>(Rp)</b>	<b>=</b>	<b>k</b>
1	Historical Market Risk Premium	2.2%	+	0.71	x	7.2%	=	7.3%
2	Current Market Risk Premium	3.8%	+	0.71	x	7.1%	=	8.8%
3	<b>Average of CAPM Estimates</b>							<b>8.1%</b>
4								
5	<b>Relevered Beta</b>	<b>Rf</b>		<b><math>\beta</math></b>		<b>(Rp)</b>		<b>k</b>
6	Historical Market Risk Premium	2.2%	+	0.67	x	7.2%	=	7.0%
7	Current Market Risk Premium	3.8%	+	0.67	x	7.1%	=	8.5%
8	<b>Average of CAPM Estimates</b>							<b>7.8%</b>
9								
10	<b>Capital Structure Adjustment (8 - 3)</b>							<b>-0.3%</b>

Supporting Schedules: Schedule JAC-2, Schedule JAC-11 Work Paper

# **D SCHEDULES**

**Litchfield Park Service Company dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Summary of Cost of Capital

Exhibit  
Rejoinder Schedule D-1  
Page 1  
Witness: Bourassa

Consolidated Capital Structure of Water and Wastewater Division

Line No.	Item of Capital	<u>Adjusted End of Test Year</u>				<u>Projected Capital Structure</u>			
		Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	\$ 10,420,000	15.87%	6.40%	1.02%	10,120,000	15.11%	6.40%	0.97%
2									
3	Stockholder's Equity	55,240,319	84.13%	9.70%	8.16%	56,876,546	84.89%	9.70%	8.23%
4									
5	Totals	\$ 65,660,319	100.00%		9.18%	66,996,546	100.00%		9.20%
6									
7									
8									
9									
10									
11									
12									
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14									
15									
16									
17									
18									
19									
20									
21									

SUPPORTING SCHEDULES:  
Testimony

RECAP SCHEDULES:

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

**Litchfield Park Service Company dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Consolidated Cost of Long Term Debt

Exhibit  
Rejoinder Schedule D-2  
Page 1  
Witness: Bourassa

Line No.	Description of Debt	End of Test Year			End of Projected Year				
		Amount Outstanding	Annual Interest	Effective Interest Rate	Weighted Cost	Amount Outstanding	Annual Interest	Effective Interest Rate	Weighted Cost
1									
2	1999 IDA	3,390,000	226,452	6.68%	2.17%	3,160,000	211,088	6.68%	2.09%
3	2001 IDA	7,030,000	488,585	6.95%	4.69%	6,960,000	483,720	6.95%	4.78%
4			-	0.00%	0.00%		-	0.00%	0.00%
5			-	0.00%	0.00%		-	0.00%	0.00%
6			-	0.00%	0.00%		-	0.00%	0.00%
7			-	0.00%	0.00%		-	0.00%	0.00%
8			-	0.00%	0.00%		-	0.00%	0.00%
9			-	0.00%	0.00%		-	0.00%	0.00%
10			-	0.00%	0.00%		-	0.00%	0.00%
11			-	0.00%	0.00%		-	0.00%	0.00%
12									
13	Totals	\$ 10,420,000	715,037		6.86%	\$ 10,120,000	694,808		6.87%

Supporting Schedules:  
E-1  
E-2

- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
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- 26
- 27
- 28
- 29
- 30

**Litchfield Park Service Company dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Cost of Preferred Stock

Exhibit  
Schedule Rebuttal D-3  
Page 1  
Witness: Bourassa

Line  
No.

1

End of Test Year

End of Projected Year

2

3

Description  
of Issue

Shares

Outstanding Amount Dividend

Requirement

Shares

Outstanding Amount Dividend

Requirement

4

5

6

7

NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING

8

9

10

11

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SUPPORTING SCHEDULES:

22

E-1

23

24

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RECAP SCHEDULES:

D-1



**Litchfield Park Service Company dba Liberty Utilities**  
Test Year Ended December 31, 2012  
Cost of Common Equity

Exhibit  
Rejoinder Schedule D-4  
Page 1  
Witness: Bourassa

Line  
No.

1  
2  
3  
4  
5  
6  
7  
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14  
15  
16  
17  
18  
19  
20

The Company is proposing a cost of common equity of

9.70% .

SUPPORTING SCHEDULES:

E-1  
D-4.1 to D-4.22

RECAP SCHEDULES:

D-1

Litchfield Park Service Company dba Liberty Utilities  
Summary of Results

Exhibit  
Rejoinder Schedule D-4.1  
Witness: Bourassa

Line No.	Method	Low	High	Midpoint
1				
2				
3				
4				
5				
6	DCF Constant Growth Estimates <sup>1</sup>	8.6%	9.3%	9.0%
7				
8	CAPM Estimates <sup>2</sup>	8.8%	11.0%	9.9%
9				
10	Build-up Method <sup>3</sup>	8.7%	12.6%	10.6%
11				
12	Average of midpoint estimates	8.7%	11.0%	9.8%
13				
14				
15	Financial Risk Adjustment <sup>4</sup>	-0.6%	-0.6%	-0.6%
16				
17	Small Company Risk Premium <sup>5</sup>	0.5%	0.5%	0.5%
18				
19	Indicated Cost of Equity	8.6%	10.9%	9.7%
20				
21				
22				
23	Recommended Cost of Equity			9.7%
24				
25				
26	1 See Rejoinder Schedule D-4-8			
27	2 See Rejoinder Schedule D-4.12			
28	3 See Rejoinder Schedule D-4.18			
29	4 See Rejoinder Schedule D-4.21, Testimony			
30	5 See Rejoinder Schedule D-4.22, Testimony			

**Litchfield Park Service Company dba Liberty Utilities**  
**Selected Characteristics of Sample Group of Water Utilities**

**Exhibit**  
**Rejoinder Schedule D-4.2**  
 Witness: Bourassa

Line No.	Company <sup>1</sup>	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating	Allowed ROE (%)
1	1. American States	59%	\$ 477.2	\$ 946.7	A+	A2	9.99
2	2. Aqua America	96%	\$ 777.7	\$ 4,025.1	AA-	NR	10.29
3	3. California Water	100%	\$ 565.7	\$ 1,490.3	AA-	NR	9.99
4	4. Connecticut Water	100%	\$ 86.2	\$ 455.4	A	NR	9.75
5	5. Middlesex	88%	\$ 115.6	\$ 440.8	A	NR	10.15
6	6. SJW Corp.	96%	\$ 269.2	\$ 844.4	A	NR	9.99
7							
8							
9							
10							
11	Average	90%	\$ 381.9	\$ 1,367.1			10.03
12							
13	Litchfield Park Service Company dba Liberty Utilities	68%	\$ 21.5	\$ 135.4	NR	NR	
14	(Adjusted as of December 31, 2012)						
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							

<sup>1</sup>AUS Utility Reports (October 2013).

Litchfield Park Service Company dba Liberty Utilities  
Capital Structures

Exhibit  
Rejoinder Schedule D-4.3  
Witness: Bourassa

No.	Company	Book Value <sup>1</sup>		Market Value <sup>1</sup>	
		Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1	1. American States	42.1%	57.9%	23.8%	76.2%
2	2. Aqua America	51.7%	48.3%	25.6%	74.4%
3	3. California Water	44.5%	55.5%	30.9%	69.1%
4	4. Connecticut Water	49.0%	51.0%	33.8%	66.2%
5	5. Middlesex	42.4%	57.6%	28.6%	71.4%
6	6. SJW Corp.	53.1%	46.9%	36.8%	63.2%
7					
8					
9					
10					
11	Average	47.1%	52.9%	29.9%	70.1%
12					
13	Litchfield Park Service Company dba Liberty Utilities	15.9%	84.1%	N/A	N/A
14	(Proforma)				
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					

<sup>1</sup> Value Line Analyzer Data (October 14, 2013)

<sup>2</sup> Adjusted Per Schedule D-1

Litchfield Park Service Company dba Liberty Utilities  
Comparisons of Past and Future Estimates of Growth

Exhibit  
Rejoinder Schedule D-4.4  
Witness: Bourassa

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	<u>Five-year historical average annual changes</u>						
	Company	Price <sup>1</sup>	Value <sup>2</sup>	EPS <sup>2</sup>	DPS <sup>2</sup>	Average Future Growth <sup>3</sup>	Average of Future and Historical Growth
1	1. American States	7.59%	5.50%	11.50%	4.50%	3.33%	5.30%
2	2. Aqua America	3.63%	6.00%	7.50%	7.50%	7.73%	6.95%
3	3. California Water	0.69%	4.50%	5.50%	1.50%	6.25%	4.65%
4	4. Connecticut Water	7.74%	4.50%	6.50%	2.00%	5.33%	5.26%
5	5. Middlesex	4.44%	4.00%	2.50%	1.50%	3.35%	3.23%
6	6. SJW Corp.	NMF	3.50%	NMF	4.00%	10.75%	7.25%
7							
8							
9							
10							
11							
12							
13							
14							
15							
16	GROUP AVERAGE	4.82%	4.67%	6.70%	3.50%	6.13%	5.44%
17	GROUP MEDIAN	4.44%	4.50%	6.50%	3.00%	5.79%	5.28%
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							

<sup>1</sup> Average of changes in annual stock prices ending on December 31 through 2012. Data from Yahoo Finance website.

<sup>2</sup> Value Line Analyzer Data, October 14, 2013

<sup>3</sup> See Rejoinder Schedule D-4.6.

**Litchfield Park Service Company dba Liberty Utilities**  
**Comparisons of Past and Future Estimates of Growth**

**Exhibit**  
**Rejoinder Schedule D-4.5**  
**Witness: Bourassa**

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	<u>Ten-year historical average annual changes</u>						
	<u>Company</u>	<u>Price<sup>1</sup></u>	<u>Book Value<sup>2</sup></u>	<u>EPS<sup>2</sup></u>	<u>DPS<sup>2</sup></u>	<u>Average Future Growth<sup>3</sup></u>	<u>Average of Future and Historical Growth Col 5-6</u>
1	1. American States	9.71%	5.00%	6.50%	3.00%	3.33%	4.69%
2	2. Aqua America	6.42%	8.50%	7.00%	7.50%	7.73%	7.54%
3	3. California Water	5.72%	5.00%	5.00%	1.00%	6.25%	5.21%
4	4. Connecticut Water	3.13%	4.50%	1.50%	1.50%	5.33%	4.00%
5	5. Middlesex	4.42%	4.50%	3.50%	1.50%	3.35%	3.42%
6	6. SJW Corp.	5.50%	5.50%	4.00%	5.00%	10.75%	7.87%
7							
8							
9							
10							
11							
12							
13							
14							
15	GROUP AVERAGE	5.82%	5.50%	4.58%	3.25%	6.13%	5.46%
16	GROUP MEDIAN	5.61%	5.00%	4.50%	2.25%	5.79%	4.95%
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							

<sup>1</sup> Average of changes in annual stock prices ending December 31, 2012. Data from Yahoo Finance website.

<sup>2</sup> Value Line Analyzer Data, October 14, 2013.

<sup>3</sup> See Rejoinder Schedule D-4.6.

**Litchfield Park Service Company dba Liberty Utilities**  
**Analysts Forecasts of Earnings Per Share Growth**

**Exhibit**  
**Rejoinder Schedule D-4.6**  
**Witness: Bourassa**

Line  
 No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28

[1] [2] [3] [4]

ESTIMATES OF EARNINGS GROWTH					
Company	Reuters <sup>1</sup>	Yahoo <sup>1</sup>	Line <sup>1</sup>	Value	Average Growth (G) (Cols 1-3) <sup>2</sup>
1. American States	2.00%	2.00%	6.00%		3.33%
2. Aqua America	7.40%	5.80%	10.00%		7.73%
3. California Water		6.00%	6.50%		6.25%
4. Connecticut Water	5.00%	5.00%	6.00%		5.33%
5. Middlesex		2.70%	4.00%		3.35%
6. SJW Corp.		14.00%	7.50%		10.75%
GROUP AVERAGE	4.80%	5.92%	6.67%		6.13%
GROUP MEDIAN					5.79%

<sup>1</sup> Data as of October 14, 2013

<sup>2</sup> Where no data available or single estimate, average of other utilities assumed to estimate for utility.

**Litchfield Park Service Company dba Liberty Utilities**  
**Current Dividend Yields for Water Utility Sample Group**

**Exhibit**  
**Rejoinder Schedule D-4.7**  
**Witness: Bourassa**

Line No.	Company	Current Stock Price (P <sub>0</sub> ) <sup>1</sup>	Current Dividend (D <sub>0</sub> ) <sup>1</sup>	Current Dividend Yield (D <sub>0</sub> /P <sub>0</sub> ) <sup>1</sup>	Average Annual Dividend Yield (D <sub>0</sub> /P <sub>0</sub> ) <sup>1,2</sup>
1	1. American States	\$ 27.50	\$ 0.82	2.98%	3.20%
2	2. Aqua America	\$ 24.60	\$ 0.62	2.52%	2.85%
3	3. California Water	\$ 20.20	\$ 0.67	3.32%	3.36%
4	4. Connecticut Water	\$ 31.81	\$ 0.99	3.11%	3.62%
5	5. Middlesex	\$ 21.09	\$ 0.76	3.60%	4.02%
6	6. SJW Corp.	\$ 28.71	\$ 0.74	2.58%	2.94%
7					
8					
9					
10					
11					
12					
13	Average			3.02%	3.33%
14	Median			3.05%	3.28%

<sup>1</sup> Value Line Analyzer Data. Stock prices as of October 14, 2013.

<sup>2</sup> Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. For comparison purposes only.

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25



Litchfield Park Service Company dba Liberty Utilities  
Discounted Cash Flow Analysis  
DCF Constant Growth

Exhibit  
Rejoinder Schedule D-4.8  
Witness: Bourassa

Line No.	[1] Average Spot Dividend Yield ( $D_0/P_0$ ) <sup>1</sup>	[2] Expected Dividend Yield ( $D_1/P_0$ ) <sup>2</sup>	[3] Growth (g)	[4] Indicated Cost of Equity k=Div Yld + g (Cols 2+3)
8	DCF - Past and Future Growth	3.02%	5.44% <sup>3</sup>	8.6%
10	DCF - Future Growth	3.02%	6.13% <sup>4</sup>	9.3%
13	Average	3.02%	5.78%	9.0%

<sup>1</sup> Spot Dividend Yield =  $D_0/P_0$ . See Rejoinder Schedule D-4.7.

<sup>2</sup> Expected Dividend Yield =  $D_1/P_0 = D_0/P_0 * (1+g)$ .

<sup>3</sup> Growth rate (g). Average of Past and Future Growth. See Rejoinder Schedule D-4.4, column 7

<sup>4</sup> Growth rate (g). Average of Analyst Estimates Future Growth. See Rejoinder Schedule D-4.6.

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28

**Litchfield Park Service Company dba Liberty Utilities**  
**Market Betas**

**Exhibit**  
**Rejoinder Schedule D-4.9**  
**Witness: Bourassa**

Line  
No.  
 1  
 2  
 3  
 4  
 5  
 6  
 7  
 8  
 9  
 10  
 11  
 12  
 13  
 14  
 15  
 16  
 17  
 18  
 19  
 20

<u>Company</u>	<u>Beta (β)<sup>1</sup></u>
1. American States	0.70
2. Aqua America	0.60
3. California Water	0.65
4. Connecticut Water	0.75
5. Middlesex	0.70
6. SJW Corp.	0.85
Average	0.71

<sup>1</sup> Value Line Investment Analyzer data (October 14, 2013)  
 Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percent-age changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

Litchfield Park Service Company dba Liberty Utilities  
Forecasts of Long-Term Interest Rates  
2012-14

Exhibit  
Rejoinder Schedule D-4.10  
Witness: Bourassa

Line No.	Description	Spot <sup>1</sup> Oct. 14, 2013	2014 <sup>2,3</sup>	2015 <sup>2,3</sup>	Average
1					
2					
3					
4					
5					
6	Blue Chip Consensus Forecasts	3.8%	4.1%	4.2%	4.0%
7					
8	Value Line	3.8%	4.1%	4.5%	4.1%
9					
10	Average				4.1%
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					

<sup>1</sup> Federal Reserve

<sup>2</sup> October 2013 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S. Treasury

<sup>3</sup> Value Line Quarterly forecast, dated August 23, 2013, Long-term Treasury

Litchfield Park Service Company dba Liberty Utilities  
Computation of Current Market Risk Premium

Line No.	Month	Dividend Yield ( $D_t/P_0$ ) <sup>1</sup>	Expected Dividend Yield ( $D_t/P_0$ ) <sup>2</sup>	Growth ( $g$ ) <sup>3</sup>	Expected Market Return ( $k$ )	Monthly Average 30 Year Treasury Rate <sup>4</sup>	Market Risk Premium (MRP)
1	Jan 2012	2.61%	2.98%	+ 14.18%	= 17.16%	- 3.03%	= 14.13%
2	Feb	2.60%	2.99%	+ 15.01%	= 18.00%	- 3.11%	= 14.89%
3	Mar	2.36%	2.65%	+ 12.33%	= 14.98%	- 3.28%	= 11.70%
4	April	2.62%	3.02%	+ 15.22%	= 18.24%	- 3.18%	= 15.06%
5	May	2.86%	3.38%	+ 18.12%	= 21.50%	- 2.93%	= 18.57%
6	June	2.73%	3.18%	+ 16.59%	= 19.77%	- 2.70%	= 17.07%
7	July	2.79%	3.29%	+ 18.10%	= 21.39%	- 2.59%	= 18.80%
8	Aug	2.73%	3.17%	+ 16.23%	= 19.40%	- 2.77%	= 16.63%
9	Sept	2.67%	3.07%	+ 14.95%	= 18.02%	- 2.88%	= 15.14%
10	Oct	2.71%	3.14%	+ 15.81%	= 18.95%	- 2.90%	= 16.05%
11	Nov	2.74%	3.15%	+ 14.88%	= 18.03%	- 2.80%	= 15.23%
12	Dec 2012	2.62%	2.95%	+ 12.63%	= 15.58%	- 2.88%	= 12.70%
13	Jan 2013	2.56%	2.86%	+ 11.74%	= 14.60%	- 3.08%	= 11.52%
14	Feb	2.60%	2.94%	+ 13.13%	= 16.07%	- 3.17%	= 12.90%
15	Mar	2.52%	2.82%	+ 11.94%	= 14.76%	- 3.16%	= 11.60%
16	April	2.46%	2.74%	+ 11.40%	= 14.14%	- 2.93%	= 11.21%
17	May	2.47%	2.73%	+ 10.70%	= 13.43%	- 3.11%	= 10.32%
18	June	2.54%	2.83%	+ 11.49%	= 14.32%	- 3.40%	= 10.92%
19	July	2.40%	2.63%	+ 9.51%	= 12.14%	- 3.61%	= 8.53%
20	Aug	2.52%	2.79%	+ 10.57%	= 13.36%	- 3.76%	= 9.60%
21	Sept	2.47%	2.70%	+ 9.46%	= 12.16%	- 3.79%	= 8.37%
22	Recommended	2.48%	2.74%	+ 10.52%	= 13.26%	- 3.43%	= 9.83%
23	Short-term Trends						
24	Recent Twelve Months Avg	2.55%	2.86%	+ 11.94%	= 14.80%	- 3.22%	= 11.58%
25	Recent Nine Months Avg	2.50%	2.78%	+ 11.10%	= 13.89%	- 3.33%	= 10.55%
26	Recent Six Months Avg	2.48%	2.74%	+ 10.52%	= 13.26%	- 3.43%	= 9.83%
27	Recent Three Months Avg	2.46%	2.71%	+ 9.85%	= 12.55%	- 3.72%	= 8.83%

<sup>1</sup> Average Current Dividend Yield ( $D_t/P_0$ ) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

<sup>2</sup> Expected Dividend Yield ( $D_t/P_0$ ) equals average current dividend yield ( $D_t/P_0$ ) times one plus growth rate( $g$ ).

<sup>3</sup> Average 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

<sup>4</sup> Monthly average 30 year U.S. Treasury. Federal Reserve.

Litchfield Park Service Company dba Liberty Utilities  
Capital Asset Pricing Model (CAPM)

Exhibit  
Rejoinder Schedule D-4.12  
Witness: Bourassa

Line No.	Rf <sup>1</sup>	+	beta <sup>3</sup>	x	Rp	=	k
1							
2							
3	4.1%	+	0.71	x	6.7%	=	8.8%
4							
5	4.1%	+	0.71	x	9.8%	=	11.0%
6							
7							9.9%
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							

<sup>1</sup> Forecasts of long-term treasury yields. See Rejoinder Schedule D-4.10.

<sup>2</sup> Value Line Investment Analyzer data. See Rejoinder Schedule D-4.9.

<sup>3</sup> Historical Market Risk Premium from (Rp) MorningStar S&P 2013 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2012.

<sup>4</sup> Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rejoinder Schedule D-4.11.

Litchfield Park Service Company dba Liberty Utilities  
**COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD**  
 Based on *Duff and Phelps* Risk Premium Study Data

Rejoinder Schedule D-4.13  
 Witness: Bourassa

	Company	Symbol	Measures of size (Millions)					
			MV Equity <sup>1</sup>	Book Equity <sup>1</sup>	MVIC <sup>1</sup>	5 Yr Avg. Net Income	Total Assets <sup>2</sup>	5 Yr Avg. EBITDA <sup>3</sup>
1.	American States	AWR	\$ 1,064	\$ 457	\$ 1,397	\$ 37	\$ 1,281	\$ 130
2.	Aqua America	WTR	\$ 4,337	\$ 1,393	\$ 5,827	\$ 133	\$ 4,859	\$ 422
3.	California Water	CWT	\$ 964	\$ 538	\$ 1,394	\$ 41	\$ 1,996	\$ 140
4.	Connecticut Water	CTWS	\$ 350	\$ 186	\$ 529	\$ 11	\$ 579	\$ 24
5.	Middlesex	MSEX	\$ 333	\$ 181	\$ 467	\$ 13	\$ 562	\$ 38
6.	SJW Corp.	SJW	\$ 577	\$ 296	\$ 912	\$ 21	\$ 1,087	\$ 89
	Litchfield Park Service Company dba Liberty Utilities		NA	\$ 11.0	NA	\$ 1.3	\$ 29.7	\$ 6.4

<sup>1</sup> From Zacks Investment Research data

<sup>2</sup> From Zacks Investment Research. From E-1 for subject utility.

<sup>3</sup> Net Income. From Zacks Investment Research and Company ACC reports

Net Income Data (\$ millions)		Company							
				2012	2011	2010	2009	2008	Average
American States	AWR			\$ 54.0	\$ 45.9	\$ 33.2	\$ 29.5	\$ 22.0	\$ 36.9
Aqua America	WTR			\$ 197.0	\$ 143.1	\$ 124.0	\$ 104.4	\$ 97.9	\$ 133.3
California Water	CWT			\$ 49.0	\$ 37.7	\$ 37.7	\$ 40.6	\$ 39.8	\$ 40.9
Connecticut Water	CTWS			\$ 14.0	\$ 11.3	\$ 9.8	\$ 10.2	\$ 9.4	\$ 10.9
Middlesex	MSEX			\$ 14.0	\$ 13.4	\$ 14.3	\$ 10.0	\$ 12.2	\$ 12.8
SJW Corp.	SJW			\$ 22.0	\$ 20.9	\$ 24.4	\$ 15.2	\$ 21.5	\$ 20.8
				2012	2011	2010	2009	2008	Average
Litchfield Park Service Company dba Liberty Utilities				\$ 5.8	\$ 4.4	\$ (0.9)	\$ (2.1)	\$ (0.7)	\$ 1.3

Net Income data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

<sup>4</sup> Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA). From Zacks Investment Research and Company ACC reports.

EBITDA Data (\$ millions)		Company							
				2012	2011	2010	2009	2008	Average
American States	AWR			\$ 154.0	\$ 133.3	\$ 134.4	\$ 122.6	\$ 105.9	\$ 130.0
Aqua America	WTR			\$ 439.0	\$ 397.8	\$ 473.2	\$ 415.2	\$ 384.7	\$ 422.0
California Water	CWT			\$ 151.0	\$ 143.3	\$ 155.7	\$ 125.5	\$ 122.1	\$ 139.5
Connecticut Water	CTWS			\$ 30.0	\$ 24.2	\$ 22.5	\$ 20.3	\$ 21.1	\$ 23.6
Middlesex	MSEX			\$ 39.0	\$ 34.6	\$ 43.3	\$ 34.6	\$ 38.6	\$ 38.0
SJW Corp.	SJW			\$ 90.0	\$ 87.1	\$ 75.4	\$ 93.5	\$ 99.7	\$ 89.1
				2012	2011	2010	2009	2008	Average
Litchfield Park Service Company dba Liberty Utilities				\$ 9.8	\$ 10.1	\$ 4.0	\$ 4.2	\$ 3.7	\$ 6.4

EBITDA data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

EBITDA data for subject utility from E-1 and/or ACC reports

Litchfield Park Service Company dba Liberty Utilities  
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD  
 Based on Duff and Phelps Risk Premium Study Data

MRP<sub>ms</sub> Estimates Using Duff & Phelps Study (Unlevered)

Assumes 100% Equity and 0% debt  
 Data Smoothing with Regression Analysis

$$\text{Smoothed Premium (RP}_{ms}) = \text{Constant} + X \text{ Coefficients} * \text{Log(Relevant Metric)}$$

$$RP_{unlevered} = RP_{levered} - W_d W_e (\beta_d - \beta_e) * RP_{market}$$

Where  $\beta_u$  = unlevered portfolio beta

$\beta_d$  = debt beta, assumed to be 0.1

$W_d$  = percentage of debt in capital structure

$W_e$  = percentage of equity in capital structure

$RP_{levered}$  = levered realized risk premium

Constant  
 X Coefficient(s)

MV Equity (Table C-1)	Book Equity (Table C-2)	MVIC (Table C-4)	5 Yr Avg. Net Income (Table C-3)	Total Assets (Table C-5)	5 Yr Avg. EBITDA (Table C-6)
18.475%	15.380%	18.661%	13.224%	17.273%	14.736%
-3.239%	-2.561%	-3.201%	-2.616%	-2.812%	-2.723%

MRP <sub>ms</sub> (unlevered)					
MV	Book	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA
Equity	Equity				
8.67%	8.57%	8.59%	9.12%	8.53%	8.96%
6.69%	7.33%	6.61%	7.67%	6.91%	7.59%
8.81%	8.39%	8.60%	9.01%	7.99%	8.90%
10.24%	9.57%	9.94%	10.51%	9.50%	11.00%
10.30%	9.60%	10.12%	10.33%	9.54%	10.43%
9.53%	9.05%	9.19%	9.78%	8.74%	9.43%
9.04%	8.75%	8.84%	9.40%	8.54%	9.39%
NA	12.71%	NA	12.94%	13.13%	12.55%

Symbol  
 AWR  
 WTR  
 CWT  
 CTWS  
 MSEX  
 SJW

Company

- American States
- Aqua America
- California Water
- Connecticut Water
- Middlesex
- SJW Corp.

Average (unlevered)

Litchfield Park Service Company dba Liberty Utilities

Indicated size premium

3.84%

**Unlevered Portfolio Beta  
(from 2012 Duff & Phelps RP Study - Table C)**

**Rejoinder Schedule D-4.15**  
**Witness: Bourassa**

	Company	Symbol	Unlevered Portfolio Beta ( $\beta_u$ )						Average
			(Table C-1)	(Table C-2)	(Table C-4)	(Table C-3)	(Table C-5)	(Table C-6)	
1.	American States	AWR	0.95	0.96	0.98	0.94	0.93	0.97	0.96
2.	Aqua America	WTR	0.87	0.86	0.81	0.88	0.84	0.84	0.85
3.	California Water	CWT	0.98	0.95	0.95	0.94	0.92	0.97	0.95
4.	Connecticut Water	CTWS	0.96	1.00	0.97	0.97	0.99	1.03	0.99
5.	Middlesex	MSEX	0.96	0.98	0.97	0.97	0.99	0.99	0.98
6.	SJW Corp.	SJW	0.95	0.97	0.97	0.96	0.97	0.95	0.96
	Average		0.95	0.95	0.94	0.94	0.94	0.96	0.95
	Litchfield Park Service Company dba Liberty Utilities		NA	0.98	NA	1.01	1.05	1.03	1.02



Litchfield Park Service Company dba Liberty Utilities  
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD  
 Based on Duff and Phelps Risk Premium Study Data

MRP Estimates Using Duff & Phelps Study (Relevered)

Relevered Realized Risk Premium

$$RP_{\text{relevered}} = RP_{\text{unlevered}} + W_d/W_e \cdot (\beta_d - \beta_u) \cdot RP_{\text{market}}$$

Where  $\beta_u$  = unlevered portfolio beta

$\beta_d$  = debt beta, assumed to be 0.1

$W_d$  = percentage of debt in capital structure

$W_e$  = percentage of equity in capital structure

$RP_{\text{unlevered}}$  = unlevered realized risk premium from Schedule D-4.14

$RP_{\text{market}}$  = general equity risk premium for the market since 1963 (4.4%)

Rejoinder Schedule D-4.16  
 Witness: Bourassa

		MRP <sub>mr's</sub> (Relevered)									
		MV		Book	5 Yr Avg.		Total	5 Yr Avg.			
		Symbol	W <sub>d</sub> /W <sub>e</sub>	Equity	Equity	MVIC	Net Income	Assets	EBITDA	Average	
1.	American States	AWR	31.2%	9.81%	9.72%	9.78%	10.25%	9.66%	10.15%	9.90%	
2.	Aqua America	WTR	34.4%	7.83%	8.45%	7.66%	8.82%	7.98%	8.68%	8.24%	
3.	California Water	CWT	44.7%	10.50%	10.02%	10.23%	10.62%	9.57%	10.57%	10.25%	
4.	Connecticut Water	CTWS	51.1%	12.12%	11.54%	11.85%	12.42%	11.46%	13.04%	12.07%	
5.	Middlesex	MSEX	40.1%	11.79%	11.11%	11.62%	11.83%	11.07%	11.97%	11.56%	
6.	SJW Corp.	SJW	58.1%	11.66%	11.23%	11.36%	11.93%	10.91%	11.55%	11.44%	
Average MRP (Relevered)			43.25%	10.62%	10.35%	10.42%	10.98%	10.11%	10.99%	10.58%	
Litchfield Park Service Company dba Liberty Utilities			8.77%	NA	13.04%	NA	13.28%	13.49%	12.90%	13.18%	

Litchfield Park Service Company dba Liberty Utilities  
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD  
 Based on Duff and Phelps Risk Premium Study Data

Equity Risk Premium Adjustment and Other metrics used in Build-up Method

Schedule D-4.17  
 Witness: Bourassa

[1] Estimate of Current Market Risk Premium ( $RP_{market}$ )	5.00%	<<<< Current Duff and Phelps recommendation
[2] Risk Premium Assumed in Duff & Phelps Study (1963-2011) <sup>1</sup>	4.30%	
[3] Equity Risk Premium Adjustment ([1] - [2])	0.70%	
[4] Average MRP (relevered) for publicly traded water companies (from Rejoinder Schedule D-4.16)	10.58%	
[5] MRP (relevered) for publicly traded water companies ( $RP_{m+a}$ ) ([3] + [4])	11.28%	
[6] Equity Risk Premium Adjustment ([3])	0.70%	
[7] Average MRP (relevered) for subject utility company (from Table 4)	13.18%	
[8] MRP (relevered) for subject utility company ( $RP_{m+a}$ ) ([6] + [7])	13.88%	
[9] Industry Risk Premium (From Ibbotson for SIC 494 Water Supply Industry Table 3-5)	-4.92%	
[10] Adjustment Factor to Industry Risk Premium ([2] / 6.7%) <sup>1</sup>	0.7463	
[11] Adjusted Industry Risk Premium ( $R_i$ ) ([9] x [10])	-3.67%	
[12] Risk Free Rate ( $R_f$ ) <sup>2</sup>	3.46%	

<sup>1</sup> From Duff and Phelps Risk Premium Report 2012.

<sup>2</sup> Yield on 20 Yr U.S. Treasury October 10, 2013 (Federal Reserve)

Litchfield Park Service Company dba Liberty Utilities  
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD  
 Based on *Duff and Phelps* Risk Premium Study Data

Cost of Equity (COE) Estimate using Build-up Method

$$E(R_i) = R_f + RP_{mkt} + RP_i + RP_u$$

Where:

$E(R_i)$  = Expected (Indicated) rate of return

$R_f$  = Risk-free rate of return. See Rejoinder Schedule D-4-17.

$RP_{mkt}$  = Market risk premium including size premium. See Scheduled- 4.16

$RP_i$  = Industry risk premium (adjusted). See Rejoinder Schedule D-4.17.

$RP_u$  = Company-specific risk premium

Schedule D- 4.18  
 Witness: Bourassa

Sample Publicly Traded		
Water		
Utilities	Litchfield Park Service Company dba Liberty Utilities	
$R_f$ =	See Table 4	3.46%
$RP_{mkt}$ =	See Table 4	-3.67%
$RP_i$ =	See Table 4	0.00%
$RP_u$ =	See Table 4	0.00%

	Company	Symbol	Indicated COE E(R <sub>i</sub> )						
			MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1.	American States	AWR	10.30%	10.21%	10.26%	10.74%	10.15%	10.64%	10.38%
2.	Aqua America	WTR	8.32%	8.94%	8.14%	9.31%	8.47%	9.17%	8.73%
3.	California Water	CWT	10.99%	10.51%	10.72%	11.11%	10.06%	11.06%	10.74%
4.	Connecticut Water	CTWS	12.61%	12.03%	12.34%	12.90%	11.95%	13.53%	12.56%
5.	Middlesex	MSEX	12.27%	11.60%	12.10%	12.32%	11.56%	12.45%	12.05%
6.	SJW Corp.	SJW	12.14%	11.71%	11.85%	12.41%	11.40%	12.04%	11.93%
	Average COE estimate		11.11%	10.83%	10.90%	11.47%	10.60%	11.48%	11.06%
	Litchfield Park Service Company dba Liberty Utilities		NA	13.53%	NA	13.77%	13.98%	13.39%	13.67%

Litchfield Park Service Company dba Liberty Utilities  
Financial Risk Computation  
Unlevered Beta

Exhibit  
Rejoinder Schedule D-4.19  
Witness: Bourassa

Line No.	Company	VL Beta $\beta_L^1$	Raw Beta $\beta_L^2$	Tax Rate $t^3$	MV Debt $D^4$	MV Equity $E^4$	Unlevered Raw Beta $\beta_{UL}^5$
1							
2							
3							
4							
5	1. American States	0.70	0.52	39.9%	23.8%	76.2%	0.44
6	2. Aqua America	0.60	0.37	39.0%	25.6%	74.4%	0.31
7	3. California Water	0.65	0.45	37.5%	30.9%	69.1%	0.35
8	4. Connecticut Water	0.75	0.60	32.0%	33.8%	66.2%	0.45
9	5. Middlesex	0.70	0.52	33.9%	28.6%	71.4%	0.41
10	6. SJW Corp.	0.85	0.75	41.1%	36.8%	63.2%	0.56
11							
12							
13	Sample Water Utilitie	0.71	0.54	37.2%	29.9%	70.1%	0.42
14							
15							
16							
17							
18							
19							
20							

<sup>1</sup> Value Line Investment Analyzer data. See Rejoinder Schedule D-4.13

Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:

Adjusted beta =  $.33 + (.67) * \text{Raw beta}$

<sup>2</sup> Raw Beta =  $(VL \text{ beta} - .35) / (.67)$

<sup>3</sup> Effective tax rates for year ended December 31, 2011.

<sup>4</sup> See Rejoinder Schedule D-4.3

<sup>5</sup> Raw  $B_U = \text{Raw } B_L / (1 + (1-t)D/E)$

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

Litchfield Park Service Company dba Liberty Utilities  
Financial Risk Computation  
Relevered Beta

Exhibit  
Rejoinder Schedule D-4.20  
Witness: Bourassa

Line No.	Unlevered Raw Beta $\beta_{UL}^1$	MV Book Debt $BD^2$	MV Equity Capital $EC^2$	Tax Rate $t^3$	Relevered Raw Beta $\beta_{RL} = \beta_{UL} (1 + (1-t)BD/EC)$	Adjusted Relevered Beta $\beta_{RL} = .35 + .67(Raw Beta)$
1	0.42	8.1%	91.9%	38.29%	0.44	0.64
2						
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1 Unlevered Beta from Rejoinder Schedule D-4.14.

2 Proforma Capital Structure of Company

	BV (in Thousands)	MV (in Thousands)	MV %
Long-term Debt	\$ 10,420	\$ 10,420	8.10%
Preferred Stock	\$ -	-	0.0%
Common Stock	\$ 55,240	118,784 (a)	91.9%
Total Capital	\$ 65,660	\$ 129,204	100.0%

(a) Current market-to-book ratio of sample water utilities. See work papers.

3 Current Tax rate based on test year ending 12/31/2012. See Schedule D-1.

**Litchfield Park Service Company dba Liberty Utilities**  
**Financial Risk Computation**

**Exhibit**  
**Rejoinder Schedule D-4.21**  
**Witness: Bourassa**

Line  
No.  
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**CAPM**

Historical Market Risk Premium	Rf	+	$\beta$	x	(Rp)	<sup>3</sup>	k
	4.1%	+	0.71	x	6.7%		8.8%
Current Market Risk Premium	4.1%	+	0.71	x	9.8%	<sup>4</sup>	11.0%
Average							9.9%

**CAPM Relevered Beta**

Historical Market Risk Premium	Rf	+	$\beta$	x	(Rp)	<sup>3</sup>	k
	4.1%	+	0.64	x	6.7%		8.3%
Current Market Risk Premium	4.1%	+	0.64	x	9.8%	<sup>4</sup>	10.3%
Average							9.3%

**Financial Risk Adjustment**

**-0.6%**

<sup>1</sup> Forecast of long-term treasury yields. See Rejoinder Schedule D-4.10

<sup>2</sup> Value Line Investment Analyzer data. See Rejoinder Schedule D-4.9

<sup>3</sup> Historical Market Risk Premium from (Rp) MorningStar S&P 2013 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2012

<sup>4</sup> Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rejoinder Schedule D-4.11

<sup>5</sup> Relevered beta found on Rejoinder Schedule D-4.15

Litchfield Park Service Company dba Liberty Utilities  
Size Premium<sup>1</sup>

Exhibit  
Rejoinder Schedule D-4.22  
Witness: Bourassa

Line No.	Beta(β)	Size Premium	Risk Premium for Small Water Utilities <sup>7</sup>
1			
2			
3			
4			
5			
6	1.12	1.14%	
7			
8	1.23	1.88%	
9			
10	1.36	3.89%	
11			
12	1.42	6.10%	3.72%
13			
14			
15			
16			
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41			

Estimated Risk Premium for small water utilities<sup>6</sup>

0.99%

- <sup>1</sup> Data from Table 7-8 of Morningstar, *Ibbotson S&P 2013 Valuation Yearbook*.  
<sup>2</sup> Mid-Cap companies includes companies with market capitalization between \$1,912 million and \$7,687 million.  
<sup>3</sup> Low-Cap companies includes companies with market capitalization between \$512 million and \$1,909 million.  
<sup>4</sup> Micro-Cap companies includes companies with market capitalization less than \$512 million.  
<sup>5</sup> Decile 10 includes companies with market capitalization between \$1.1 million and \$254 million.  
<sup>6</sup> From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.  
<sup>7</sup> Computed as the weighted differences between the Decile 10 risk premium and the indicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

Market Cap.	Size Premium	Difference	Weighted Size Premium
1. American States	1.85%	4.25%	0.71%
2. Aqua America	1.12%	4.98%	0.83%
3. California Water	1.85%	4.25%	0.71%
4. Connecticut Water	3.81%	2.29%	0.38%
5. Middlesex	3.81%	2.29%	0.38%
6. SJW Corp.	1.85%	4.25%	0.71%
Weighted Size Premium for Small Companies			3.72%

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5  
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**  
7

8  
9 IN THE MATTER OF THE  
APPLICATION OF LITCHFIELD PARK  
10 SERVICE COMPANY, AN ARIZONA  
CORPORATION, FOR A  
11 DETERMINATION OF THE FAIR  
VALUE OF ITS UTILITY PLANTS AND  
12 PROPERTY AND FOR INCREASES IN  
ITS WATER RATES AND CHARGES  
13 FOR UTILITY SERVICE BASED  
THEREON.

DOCKET NO: W-01427A-13-0043

14 IN THE MATTER OF THE  
APPLICATION OF LITCHFIELD PARK  
15 SERVICE COMPANY, AN ARIZONA  
CORPORATION, FOR A  
16 DETERMINATION OF THE FAIR  
VALUE OF ITS UTILITY PLANTS AND  
17 PROPERTY AND FOR INCREASES IN  
ITS WASTEWATER RATES AND  
18 CHARGES FOR UTILITY SERVICE  
BASED THEREON.  
19

DOCKET NO: SW-01428A-13-0042

20  
21 **REJOINDER TESTIMONY OF**  
22 **WENDELL LICON, PHD, CFA**  
23

24 **December 4, 2013**  
25  
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1 **I. INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Wendell Licon. My business address is Department of Finance,  
4 Arizona State University, P.O. Box 873906, Tempe, Arizona 85287-3906.

5 **Q. ARE YOU THE SAME PROFESSOR LICON THAT PREVIOUSLY**  
6 **SUBMITTED REBUTTAL TESTIMONY IN THIS CASE?**

7 A. Yes. My rebuttal testimony was filed on October 23, 2013. In that testimony,  
8 I explained why some of the approaches used by Staff bias the resulting return on  
9 equity downwards, and why the resulting equity return is unreasonable when  
10 viewed in the light of general finance theory.

11 **Q. PROFESSOR LICON, CAN YOU EXPLAIN THE PURPOSE OF YOUR**  
12 **TESTIMONY?**

13 A. Sure. This is my first time being directly involved with a utility matter in a rate  
14 case. I am not recommending an equity return for LPSCO, nor am I testifying as to  
15 utility specific principles. Rather, I am viewing Staff's equity return  
16 recommendation in this case in light of my expertise in business and finance,  
17 including both my experience advising investors in the private sector and teaching  
18 at ASU. The lens under which I viewed Staff's analysis and recommendations is  
19 developed based on real world business experience and financial concepts and  
20 applies equally to any entity that must attract capital, whether it be a utility or a  
21 broom maker.

22 **Q. WHAT IS THE FOCUS OF YOUR REJOINDER TESTIMONY IN THIS**  
23 **PROCEEDING?**

24 A. I will respond to the surrebuttal testimony filed by Mr. John Cassidy wherein he  
25 responded to my rebuttal testimony.

26

1     **II.     REJOINDER TO STAFF**

2             **A.     Incorrect Application of Hamada Adjustment**

3     **Q.     MR. CASSIDY BEGINS HIS RESPONSE TO YOUR TESTIMONY BY**  
4             **DEFENDING STAFF'S MODEL AS REASONABLE BECAUSE IT IS**  
5             **"MARKET BASED." IS MR. CASSIDY CORRECT?**

6     **A.**     No. To begin with, Staff's model is not entirely market based. Furthermore,  
7             labeling something market based does not change the fact that the selection of  
8             inputs into the models biases the result. Mr. Cassidy's explanation also does not  
9             address the real world issues faced by a utility such as Liberty (LPSCO) in its  
10            effort to attract capital on equal footing with other companies.

11    **Q.     WHAT DO YOU MEAN "STAFF'S MODEL IS NOT ENTIRELY MARKET**  
12            **BASED"?**

13    **A.**     I mean Staff uses book values in its market based Hamada equation. If the market  
14            data reasonably reflects investor expectations, as Mr. Cassidy asserts and as I  
15            agree, then I question why Staff uses book values to determine a financial risk  
16            adjustment when the required market values were available to him for his analysis.  
17            The use of book values results in a lower return on equity recommendation.

18    **Q.     IS THAT WHY STAFF DOES IT?**

19    **A.**     That's an interesting question. But, I am afraid I cannot answer it, even if  
20            Mr. Cassidy thinks I insinuated that Staff has an ulterior motive.<sup>1</sup> As I mentioned,  
21            I have never been involved in a rate case, nor have I ever met Mr. Cassidy or  
22            anyone at Staff. All I can say is that anyone using the Hamada methodology has to  
23            know that, relative to market values, the use of book values will inherently bias the  
24            result towards a lower beta, and therefore, a lower cost of equity, if the market  
25

26            <sup>1</sup> Surrebuttal Testimony of John A. Cassidy ("Cassidy Sb.") at 11:21 – 12:2.

1 value of the firm's equity is greater than the book value of that equity. Again, the  
2 use of book values is at odds with Mr. Cassidy's "market based" defense.

3 **Q. DOES MR. CASSIDY EXPLAIN THE BASIS FOR STAFF'S USE OF**  
4 **BOOK VALUES IN THE HAMADA METHODOLOGY?**

5 A. Mr. Cassidy provides no underlying financial reason or theory that support his use  
6 book values in the capital structure.<sup>2</sup> I still contend that based on financial theory  
7 that the use of book values in a market-based model is not justified by Staff's  
8 assumption of a capital structure composed of 40 percent debt and 60 percent  
9 equity.<sup>3</sup> There are two simple reasons why this is incorrect, first the average debt  
10 to equity ratio using book values in his comparative group is very close to one  
11 (50 percent debt / 50 percent equity). Second, the average market-to-book ratio for  
12 firms in his sample is given as 2.2. Using the comparative group debt to equity  
13 ratio as an example, then the market value version of that same calculation is  
14 50/110 or 0.4545 ( $50 / \{50 * 2.2\}$ ), not the value of one implied by the use of book  
15 values in this example. As long as the market value of equity is greater than the  
16 book value of equity, this same type error will exist as well as its impact on the  
17 calculated cost of equity for the firm in question. The true market based debt-  
18 equity ratio for the proxy firms based upon a book value based debt-equity ratio  
19 will in fact be lower than the correct factor required by the Hamada adjustment  
20 even if a 40-60 capital structure assumption is imposed on the proxy sample.  
21 The ultimate impact of Staff's recommendation is to lower the return on equity.

22  
23  
24  
25 

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<sup>2</sup> Cassidy Sb. at 12:12-13:2.

26 <sup>3</sup> *Id.* at 12:3-10.

1 Q. DO YOU AGREE THAT A 40-60 CAPITAL STRUCTURE IS  
2 "BALANCED" AND "ECONOMICAL"?

3 A. For what entity as well as the specific factors confronting that entity? Usually we  
4 would talk about a firm's capital structure based upon market values rather than  
5 book. Since the proxy companies debt-equity book values average about 50-50,  
6 and the market to book ratios for the proxy firms is 2.2, then it appears that for the  
7 proxy companies, the market value capital structure is 31.25- 68.75 (50-110 from  
8 the preceding question) for entities of their size. I should also point out that this is  
9 not a one-size fits all situation. Every entity will have its own reasons for the  
10 balance of debt and equity it uses to finance its assets. These reasons will include  
11 the age of the firm's asset infrastructure, the growth or contraction rate of the  
12 firms' customer base, and the level of confidence that management holds for the  
13 firm's future, etc. Absent evidence to the contrary, I can only assume that  
14 LPSCO's capital structure reflects the balance its management and ownership feel  
15 is appropriate under their unique circumstances.

16 Q. YOU DO AGREE, DON'T YOU, THAT AN ENTITY WITH MORE DEBT  
17 HAS MORE FINANCIAL RISK THAN AN ENTITY WITH LESS DEBT,  
18 ALL OTHER THINGS BEING EQUAL?

19 A. Of course. However, basing returns on equity solely on relative measures of  
20 financial risk would be like ignoring the risk inherent in the cash flow produced by  
21 the firm's assets, which really should be the main driver of risk, especially for a  
22 regulated utility.

1 Q. FAIR ENOUGH PROFESSOR, BUT DOESN'T THE FACT THAT  
2 MR. BOURASSA'S RELEVATED BETA IS CLOSE TO STAFF'S  
3 RELEVATED BETA MEAN THAT YOUR CRITICISM IS UNJUSTIFIED?

4 A. No.<sup>4</sup> Mr. Bourassa will address the comparison of relevered betas and the specific  
5 details of his data inputs in his rejoinder testimony.<sup>5</sup> For my part, I firmly believe  
6 that Mr. Cassidy is correct in accounting for capital structure differences in the cost  
7 of capital. However, he chooses to make that adjustment by using book values  
8 rather than the prescribed method using market values. After making that book  
9 value calculation, he utilizes that value in combination with his market risk  
10 premium to calibrate a financial risk adjustment for LPSCO. Since market values  
11 will drive higher beta values with the Hamada adjustment, I must conclude that the  
12 cost of equity produced by his data is underestimating the cost of equity.  
13 While Mr. Cassidy attempts to adjust for the difference between firms with more  
14 financial risk than LPSCO (and I agree with that need for adjustment),  
15 his calibrated adjustment is 60 basis points. I would prefer if Mr. Cassidy had  
16 provided an adjustment from the use of book values to the market values in a  
17 separate analysis since that adjustment should work to reduce or even possibly  
18 eliminate the 60 basis point downward adjustment described above.

19 Q. SO, NOTWITHSTANDING MR. CASSIDY'S EXPLANATION OF WHY  
20 THEY DO IT, IS IT STILL YOUR EXPERT OPINION THAT IT IS AN  
21 ERROR TO USE BOOK VALUES IN THE FINANCIAL RISK  
22 ADJUSTMENT?

23 A. Yes. Best practice, as well as the theoretical justification of the Hamada  
24 Adjustment dictates that we use market value of debt and equity whenever those

25 <sup>4</sup> Cassidy Sb. at 13:4-14:10.

26 <sup>5</sup> Rejoinder Testimony of Thomas J. Bourassa – Cost of Capital (“Bourassa COC Rj.”) at 14-15.

1 values are available. If we are truly attempting to use market information to  
2 understand the correct cost of capital for a firm, then we should attempt to involve  
3 as much market based information as possible to the analysis. Ignoring that market  
4 based information when available is introducing errors to the analysis.

5 **Q. CAN YOU PROVIDE A REAL WORLD EXAMPLE OF WHY MARKET**  
6 **VALUES MATTER?**

7 A. Yes, a simple analogy I can think of is purchasing a home. Reflect back several  
8 years ago during the 2005 housing market boom and let's assume I purchased a  
9 house at fair market value for \$100,000 with a twenty percent down payment. That  
10 means I bought the home putting \$20,000 down and borrowing \$80,000 from the  
11 bank. I could comfortably afford to pay the mortgage payments based on my  
12 income. At the time of purchase, the bank would view my loan as less risky than  
13 say the same home with only a \$5,000 down payment and a \$95,000 mortgage.  
14 My loan-to-value is 0.8 for an \$80,000 mortgage, and 0.95 for a \$95,000 mortgage.  
15 From my perspective, while I might have been able to pay a \$95,000 mortgage, the  
16 payments may have required me to stretch my budget.

17 Several years later, in 2009, the real estate market crashes and the fair  
18 market value of my home is now \$50,000, a fifty percent decrease from when I  
19 bought it. As shown in the table below, I am "upside down" on my mortgage -  
20 meaning I owe more money to the bank than the house is worth.

	2005 Original Cost	2009 Book Value	2009 Market Value
Home Value	\$100,000	\$100,000	\$50,000
Down Payment (Equity)	\$20,000	\$20,000	\$20,000
Loan (Debt)	\$80,000	\$75,000	\$75,000
Home Equity: positive / (negative)	\$20,000	\$25,000	(\$25,000)

From a book value (original cost of home) perspective it would appear that nothing is wrong. In fact, it would appear that I am better off because my equity in my home increased by \$5,000 from \$20,000 to \$25,000. My loan-to-value improved from 0.8 to 0.7. But, using my original purchase price as the value of my home masks the true situation. The reality is my equity declined by \$45,000 from \$20,000 to a negative \$25,000. My loan-to-value is really 1.5 indicating that not only is my loan greater than the value, but I now have a much higher risk loan.

The bank and investors would not evaluate the risk of my mortgage based upon my home's book value, but rather its market value. This is exactly what occurred in 2009. The market reaction to the housing market value decline was that banks stopped lending and investors stopped buying mortgage-backed securities. The risk was too great. Market liquidity dried up causing the collapse of Lehman Brothers and the government to bailout many large financial institutions such as Morgan Stanley, Chase, and others. If book value (original purchase price of homes) mattered to investors, there would not have been a financial crisis.

Now, fast forward to 2013, the housing market rebounded and my home is now worth \$120,000 generating positive home equity of \$50,000.



	2005 Original Cost	2013 Book Value	2013 Market Value
Home Value	\$100,000	\$100,000	\$120,000
Down Payment (Equity)	\$20,000	\$20,000	\$20,000
Loan (Debt)	\$80,000	\$70,000	\$70,000
Home Equity: positive / (negative)	\$20,000	\$30,000	\$50,000

My situation is vastly improved from 2009 and it is better than a book value perspective would indicate. I have \$20,000 more equity in my home based upon the fair market value compared to my equity based upon book value (original cost). My true equity has improved by \$75,000 compared to 2009, not simply \$10,000 based upon my book value. My loan-to-value has also improved to 0.58 based upon market value compared to 0.7 based upon book values. Banks and investors would also view my situation as vastly improved and my mortgage loan significantly less risky as a result.

**Q. HOW DOES THIS ANALOGY COMPARE TO STAFF'S RECOMMENDATIONS?**

A. Staff's recommendations regarding the use of book values obscures the true picture regarding the risk on debt, just like the home mortgage example. Mr. Cassidy's water proxy group has an average market to book ratio of about 2.2 times book value. In other words, the value of the average water proxy company's equity is 2.2 times greater than book value. The loan-to-value of Mr. Cassidy's water proxy group is 0.27 assuming a book capital structure of 40 percent debt and 60 percent equity. It is lower than the loan-to-value based upon book of 0.4. Investors would

1 view the financial risk associated with the water proxy group's debt as less risky if  
2 the loan-to-value is 0.27 rather than 0.4 just as with a mortgage on a home.  
3 However, an investor would not accept the 0.27 value as the correct value, he  
4 would use all of the information available to arrive at the correct market value  
5 version of the ratio. In short, Staff's recommendation, (using Hamada's book  
6 values versus market values), is tantamount to asking a bank to make a home  
7 mortgage loan based on the original loan value rather than the current market  
8 value.

9 **B. Risk Free Rate**

10 **Q. THANK YOU DR. LICON. LET'S TURN TO YOUR CRITICISM OF THE**  
11 **CHOICE OF RISK FREE RATE IN THE CAPM. TO START, PLEASE**  
12 **SUMMARIZE YOUR CONCERN WITH THE RISK FREE RATE USED BY**  
13 **STAFF.**

14 **A.** Whenever a financial analyst evaluates an asset, a project, or a security (from here  
15 on out I will refer to a project or security as an asset since they meet the financial  
16 definition), the amount of time that the asset will produce cash flows for the owner  
17 of that asset is an important factor in choosing the discount rate that will be used in  
18 the evaluation. The reason for this is that once capital is invested in an asset, that  
19 capital will need to remain invested in that asset for the remainder of its economic  
20 life. Therefore, it remains important to take into account the liquidity premium  
21 associated with financing a 30-year project with a 30-year liquidity premium rather  
22 than with a 5, 7, or 10-year liquidity premium, which is what Staff did at this stage  
23 of the CAPM.

1 Q. WHAT REASONS DID MR. CASSIDY OFFER FOR USE OF THESE  
2 INTEREST RATES?

3 A. Mr. Cassidy suggests that the correct risk-free maturity should match an investor's  
4 holding period.<sup>6</sup> He explains that he prefers to analyze the discount rate associated  
5 with the financing for the firm's project rather than to analyze the project, or the  
6 firm's assets. I do not have an issue with that line of reasoning. However,  
7 common equity securities do not have a maturity because they are infinitely lived  
8 securities. With that infinite life in mind, the closest proxy for that maturity range  
9 would be the 30-year Treasury security. Obviously there is a big difference  
10 between 5, 7 and 10 and 30, and use of the longer period would result in a higher  
11 return on equity under Staff's model.

12 Q. CAN YOU PROVIDE A SIMPLE EXAMPLE OF WHY STAFF'S  
13 RECOMMENDATION IS COUNTER INTUITIVE?

14 A. Yes, imagine you want to buy a share in McDonalds. You call up Merrill Lynch to  
15 place an order for one share. Merrill Lynch doesn't quote a different price based  
16 on whether you want to hold that share for 5, 7 or 10 years. You are given one  
17 price no matter how long you want to hold the stock and that price is for an  
18 infinitely lived security.

19 Q. BUT ISN'T MR. CASSIDY RIGHT THAT THE CAPM IS A SINGLE  
20 HOLDING MODEL?

21 A. Yes, however, the theoretical framework for that model did not state how long such  
22 a holding period would last. It could mean one year, five years, thirty years, or an  
23 infinite list of holding periods. It left open the possibility that certain assets would  
24 have an economic life longer or shorter than a year but that life would represent the  
25

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26 <sup>6</sup> Cassidy Sb. at 6:19 – 7:9.

1 holding for those assets. That is why we generally consider the entire economic  
2 life of the asset (security) when we correctly perform our analysis. One may argue  
3 that the owner of a security has the option of selling that security to another  
4 investor, which would effectively open the possibility that original investor's  
5 holding period was less than infinity. However, that argument ignores the fact that  
6 the new security holder must purchase an infinitely lived security and take that into  
7 account if he/she ever wants or needs to sell that security. Therefore, the correct  
8 liquidity proxy for an equity security should be as long as possible and in this case  
9 the 30-year rate is most appropriate.

10 **Q. WHAT RISK-FREE RATE DO YOU RECOMMEND BE USED AS A**  
11 **PROXY FOR THE RISK-FREE RATE IN THE CURRENT ANALYSIS?**

12 **A.** Whether we analyze the individual assets or the equity securities, in this case,  
13 my recommendation is the same utilizing the 30-year Treasury rate as the proxy for  
14 the risk-free rate of return.

15 **Q. WELL THEN, DOESN'T MR. BOURASSA'S USE OF THE 20 YEAR RATE**  
16 **UNDERMINE YOUR TESTIMONY**

17 **A.** Not at all. As Mr. Bourassa explains in his rejoinder, he used a 30 year Treasury  
18 rate in his CAPM and a 20 year in his Duff & Phelps Build-Up method because the  
19 20 year is the information Duff & Phelps provides.<sup>7</sup> A 20 year rate does a better  
20 job of capturing the long term nature of the securities in question than a 5, 7 or 10  
21 year rate, albeit not as well as the 30 year rate does.

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26 <sup>7</sup> Bourassa COC Rj. at 12-14.

1 Q. AT THE END OF THIS DISCUSSION, AND THE NEXT, MR. CASSIDY  
2 MAKES A POINT OF SAYING THAT YOUR CRITICISM IS 'CONFINED  
3 TO THIS ISSUE.' DO YOU UNDERSTAND THIS TESTIMONY?

4 A. Not really. I can't really say what he means by "this issue." Does he mean the  
5 determination of a return on equity for LPSCO? Or does he mean my opinion that  
6 Staff's inputs are biased towards a lower rate of return? I just don't really know  
7 what he means or why he is trying to "confine" my testimony. All I can say is that  
8 if Mr. Cassidy is claiming that my criticism is limited to one or two inputs in the  
9 CAPM,<sup>8</sup> I respectfully suggest he has missed the point.

10 Q. WHAT POINT HAS HE MISSED, PROFESSOR LICON?

11 A. Calculating the cost of capital for a firm utilizes market based information with an  
12 attempt at adjusting that information to "fit" the firm of interest. In doing so, it is  
13 extremely important to understand the purpose of those adjustments and recognize  
14 to what extent the firm fits the adjusted picture. While there are a number of  
15 "mechanical" adjustments required to calculate a firm's cost of capital using proxy  
16 group data as well as other market based inputs, we need to understand the nature  
17 of the firm's investments (assets in place) in order to apply those adjustments.  
18 Therefore, while I suggest that the proper risk-free rate is that of the 30 year  
19 treasury security, please understand that I am referring to an economic life of  
20 LPSCO's assets rather than quibbling about a mechanical input.

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26 <sup>8</sup> Cassidy Sb. at 8:15-19, 11:1-6.

1           **C.     Input forecast critiques**

2       **Q.     YOU WERE ALSO CRITICAL OF STAFF'S USE OF 4-YEAR FORECAST**  
3       **INSTEAD OF A 3-YEAR FORECAST. IS THAT CORRECT?**

4       **A.**    Yes. The basis of that criticism is that it involved a projection from Value Line.  
5           Now, because the historical market risk premium does not vary very much over  
6           long periods of time, I would not have criticized a forecast of the market risk  
7           premium from Value Line or other reputable market analyst based firms.  
8           However, Mr. Cassidy utilized a projection of the market return, which by itself,  
9           can vary greatly from year to year, and is then used in combination with a static  
10          risk-free rate of return to arrive at a market risk premium. In fact, Mr. Cassidy's  
11          surrebuttal states that Value Line updates the projected variable in each weekly  
12          edition. The need for weekly updates suggests that the projection is a volatile  
13          number. That annualized market return would then be differenced with a risk-free  
14          rate to then calculate the market risk premium. I would not recommend utilizing a  
15          projected market rate of return for these purposes, but for the time being let's  
16          assume that reliance on that value is economically justified. The projection stated  
17          that the 3 to 5 year price appreciation of the market is expected to be 40%. My  
18          experience suggests that if market participants find a forecast or even a projection  
19          to be credible, which we must assume if we are using it for the current purposes,  
20          then those participants tend to trade on that forecast driving the market to achieve  
21          the forecasted result at an earlier time frame rather than a longer time frame.

22       **Q.     CAN YOU EXPLAIN WITH ANOTHER EXAMPLE?**

23       **A.**    Yes. Let's assume that investors have been realizing returns of 2% per year  
24          recently and they are told with credibility that the market is expected to increase by  
25          40% over the next 4 years. However, investors are not told what periods of time  
26          will generate the larger part of those returns. Since investors will not want to miss

1 the 40% returns, they must invest now and hold their securities until they earn their  
2 stated goal. However, by investing now, they help drive the market toward that  
3 40% projection sooner rather than later. Therefore, I brought up annualizing that  
4 40% return over 3 years rather than 4. My criticism of the 4 year period was based  
5 upon picking 4 years since it was a middle-road-estimate for the 40% return rather  
6 than from an economically defensible point.

7 **Q. BUT MR. CASSIDY RESPONDS THAT USING A 4-YEAR PERIOD IN**  
8 **THE MARKET RISK PREMIUM CAPM IS "ENTIRELY REASONABLE."**  
9 **HOW DO YOU RESPOND?**

10 A. Like several of Mr. Cassidy's responses to my criticisms, his response is little more  
11 than "it is reasonable because we did it this way."<sup>9</sup> That does not change the fact  
12 that Staff's model hangs its hat on an inherently unpredictable random value  
13 without any theoretical basis for doing so, and then calls its own approach  
14 reasonable.

15 **Q. WHAT ABOUT STAFF'S ASSERTION THAT MR. BOURASSA IS ALSO**  
16 **DISCOUNTING THE FORECAST IN HIS MRP CAPM?**

17 A. I read that testimony.<sup>10</sup> Mr. Bourassa points out that a single, projected rate can be  
18 extremely volatile depending upon the point in time that the estimate is made.  
19 For instance, it might be possible for Mr. Cassidy to choose a projection at a point  
20 in time that forecasted a 14% market rate of return generating a 12.35% market risk  
21 premium. Therefore, Mr. Bourassa chose to average several months of projections  
22 in order to attempt to mitigate the influence of a projection that can change  
23 drastically from month to month.

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25 <sup>9</sup> Cassidy Sb. at 9:17-10:15; *see also id.* at 5:9-21, 7:11-16.

26 <sup>10</sup> *Id.* at 10:17-20.

1 To summarize, my objections to the use of a forward looking projection are  
2 two: 1) the use of a projection if deemed credible (although that is questionable  
3 due to my second objection) by investors creates incentives for investors to act and  
4 drive expected market returns earlier than forecasted, and 2) Staff's use of a single,  
5 point in time, random variable forecast that is volatile and will not serve the best  
6 interest of LPSCO or its customers. I will leave it to Mr. Bourassa to address the  
7 specific reasons our positions are not inconsistent.<sup>11</sup> Having now been able to  
8 compare Mr. Cassidy's testimony attempting to draw contradictions and  
9 Mr. Bourassa's response, let me state that I was not asked to defend Mr. Bourassa's  
10 recommendations, nor has it been my intention to do that. I was asked to review  
11 Staff's recommendations based upon my knowledge of financial theory with a  
12 professor's grading eye as well as with my practical experience. "I don't question  
13 Mr. Cassidy's motivations or integrity. Rather, it is my expert opinion that he has  
14 not followed sound financial principles in his return on equity analyses for Liberty  
15 and, in turn, that analysis does not reflect the real world for LPSCO in its efforts to  
16 attract investment from capital markets."

17 **Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?**

18 **A. Yes.**

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26 <sup>11</sup> Bourassa COC Rj. at 14.